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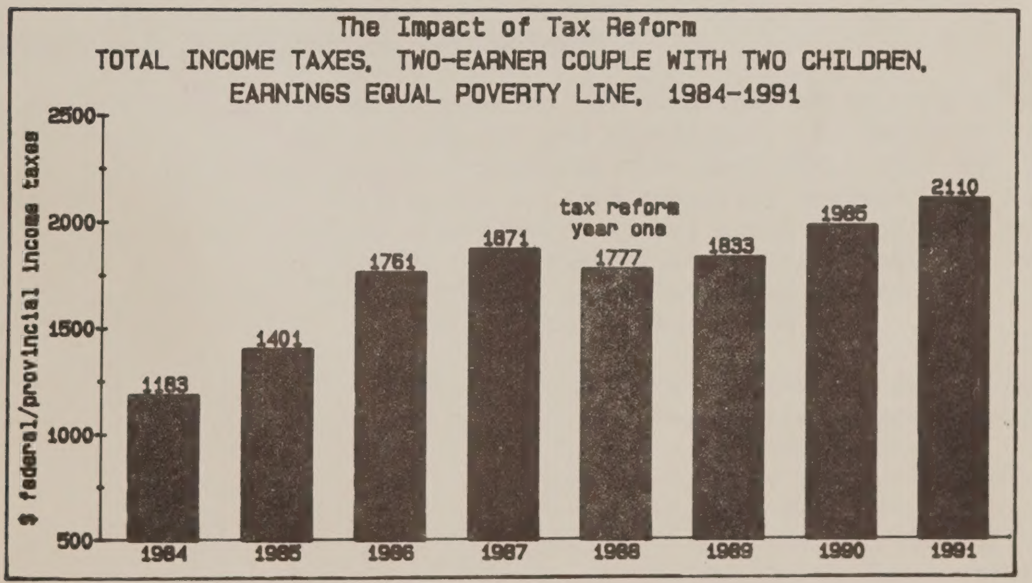
TESTING TAX REFORM

A Brief to the Standing Committee on
Finance and Economic Affairs



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Canada

TESTING TAX REFORM

A Brief to the Standing Committee on Finance and Economic Affairs

The White Paper of June 1987 lists five broad objectives for reforming Canada's tax system - fairness, competitiveness, simplicity, consistency and reliability. The Finance Minister states that his tax reform proposals "are aimed at achieving an appropriate balance among these objectives (while) recognizing that trade-offs and choices are inevitable".

We applaud the prominence given the need to create a "consistently progressive" tax system. Canada does not have a fair tax system. Successive federal budgets during the 'eighties have made the tax system even more unfair.

One of the White Paper's key changes - the conversion of personal exemptions and some deductions to credits - marks an important and long-overdue advance toward a more progressive tax system. Unfortunately most of the government's tax changes pursue the other four tax reform objectives in such a way as to hamstring the principle of fairness. Canadians will end up with a tax system that might look good in the beginning but, with the passage of time, could prove even worse than the one they have now.

First Principles: Progressivity and Fairness

The personal income tax system is based on the principle of ability to pay: the higher your income, the more tax you can and should pay. In reality, however, the large number of exemptions and deductions that have crept into the income tax system over the years have blunted its progressivity because such tax breaks are regressive (the opposite of progressive) - they grant tax savings which increase with income. As a result, the personal income tax system is less progressive and its impact on the unequal distribution of income less significant than many people believe. (See Figures 1 and 2).

But the personal income tax is only one element in the overall tax system. Consumption taxes - federal and provincial sales and excise taxes - apply the same rate to all consumers whatever their means; since lower-income households have less income, such taxes impose a heavier burden on them in relative terms and therefore have a regressive impact. Property taxes, which are applied at the municipal level of government, also are regressive. On balance **our tax system is not progressive:** it is regressive for lower-income Canadians and proportional for the non-poor majority (i.e., middle- and upper-income families and individuals pay about the same percentage of their income to the various taxes, but less than the poor).

The Burden of Recent Budgets

Federal budgets in 1981, 1984, 1985 and 1986 have further eroded the progressivity of the tax system by imposing tax increases which hit lower- and middle-income Canadians hardest and by bestowing tax breaks which most benefit the well-off. The elimination of the federal tax reduction, the partial indexation of personal exemptions and tax brackets, and the imposition of surtaxes have raised the income tax burden for working poor as well as middle-income families and individuals. Some poor people are paying income tax for the first time as the taxpaying threshold is pushed deeper below the poverty line.

The two positive developments - an increase in the child tax credit and the introduction of a refundable sales tax credit for low-income persons- have been more than offset by the combination of increases in income tax and federal sales and excise taxes and the partial indexation of family allowances. By illogical and unjust contrast, upper-income taxpayers have been handed generous tax breaks in the form of hefty increases in the tax deduction limits for private pension and RRSP contributions and a proposed $500,000 lifetime capital gains exemption (subsequently lowered to $100,000 in the White Paper).

Testing Tax Reform

Tax reform should correct this imbalance and return Canada's tax system to the principle of ability to pay which is the foundation of fairness. In our view this means that:

a. The burden of income and consumption taxes should be removed from low-income families and individuals.

b. Canadians with incomes below the median or mid-way point (for 1987, an estimated $13,000 for a single person and $42,000 for a family of four) should pay less total taxes (from both income and consumption taxes) than they do now.

c. Only taxpayers with above-average incomes should bear a heavier overall tax burden under the new system.

d. Tax reform must restore full indexation of tax brackets and credits.

e. The tax mix should not be altered to get more revenue from regressive sales taxes and less from income tax, which is the only progressive part of the overall tax system.

The Crucible of Income Tax Reform: More Tax Credits and Lower Tax Rates

The Finance Minister plans to reform the personal income tax system by converting a number of exemptions and deductions to credits and at the same time lowering tax rates. The first measure works in favor of a progressive tax system. The second works against it.

a. converting exemptions and deductions to credits

The White Paper takes a giant step towards a credit-based income tax system. All personal exemptions - the basic personal, age, married, equivalent-to-married and children's exemptions - will be changed to flat-rate non-refundable tax credits. Certain deductions - for Canada and Quebec Pension Plan contributions, unemployment insurance premiums, pension income, disability, tuition fees and education, medical expenses and charitable donations - become credits as well. The unused portion of five of the new credits - the age, disability, pension income, tuition and education credits - will be transferable to a taxpayer's spouse.

The White Paper does away with the $1,000 interest and dividend income deduction and the employment expense deduction. The exemption for dependent students over age 18 will go, although the Finance Minister says he will compensate for this loss by making the tuition and education credits transferable to spouses or supporting parents. Pending the announcement of the federal government's new child care policy, the child care expense deduction was left untouched.

The White Paper retains the lifetime exemption for capital gains ("to encourage and reward success, entrepreneurship and risk-taking") though limiting it to $100,000 rather than the $500,000 proposed in the May 1985 budget; capital gains arising from the sale of farm property and shares of small business will enjoy a $500,000 lifetime exemption from income tax. By 1990 three-quarters, up from one-half,of any capital gains that remain after the lifetime exemption will be subject to taxation. As set in motion by the 1985 budget, tax deductions for registered pension plan and RRSP contributions will be substantially boosted over the next several years, thought the increase will be phased in more slowly.

For years the National Council of Welfare and other social policy groups have advocated the conversion of exemptions and deductions to credits. As we have documented time and time again, exemptions and deductions give larger tax breaks to upper-income taxpayers whereas tax credits have the opposite effect.

The move from exemptions and deductions to credits is welcome. It is a progressive - indeed, the only truly progressive - feature of the government's blueprint for tax reform. Low and modest-income families and individuals will gain most in relative terms from this shift. Higher-income Canadians will receive smaller tax breaks from credits than from exemptions and deductions.

Figure 3 compares the value of the old basic personal exemption with the new basic personal credit for single taxpayers under age 65 at different income levels in 1988. Single women and men earning between $10,000 and $25,000 get more ($456 more in federal and provincial tax savings) from the credit than the exemption, while those earning $30,000 and above lose tax savings as a result of the conversion of the basic personal exemption to a credit. The losses in federal/ provincial tax savings amount to $140 for single taxpayers between $30,000 and $50,000 and $338 for those earning $75,000 and above in 1988.

Figure 4 shows the effect on single parents with two children of converting the children's exemption and equivalent-to-married exemption to credits. Figure 5 looks at the conversion of the married exemption to a credit using the example of one-earner couples, while Figure 6 shows the change from the age exemption to credit for a single pensioners.

The pattern is the same in all cases: **Low- and modest-income Canadians gain in the shift from personal exemptions to credits, while those in the higher income range lose.** However the impact on middle-income taxpayers (i.e., those with incomes around the average) varies according to the type of family unit. The estimated average income in 1988 for single persons under age 65 is approximately $19,000; for one-parent families headed by women, $22,000; for single persons 65 and older, about $14,000. Therefore the switch from exemptions to credits is to the advantage of middle-income taxpayers in these categories since the point dividing the losers from the winners is higher than the estimated average income. However the average income for couples with children (in the order of $47,000 for a couple with two children) is higher than the winner/loser dividing line for the conversion of personal exemptions to credits, which means that only low and modest-income families (i.e., those in the $10,000 to $25,000 range) come out ahead.

Figure 7 plots the shift from the tax deduction for Canada/Quebec Pension Plan contributions to a tax credit, while Figure 8 examines the tax break for unemployment insurance premiums. Because the C/QPP credit is calculated as 17 percent of the amount of the contribution, lower-income taxpayers (who fall in the 17 percent marginal tax bracket) get the same tax savings from the credit as the deduction, whereas those in higher tax brackets lose from the conversion. The same applies to the change from a deduction to a credit for unemployment insurance premiums.

While we support the conversion of exemptions and deductions to credits, we believe the Finance Minister should take this progressive policy another step forward by getting rid of several tax breaks that overwhelmingly favor the rich at great expense to the public purse.

Income from capital gains should not continue to enjoy preferential treatment from the income tax system. Tax breaks for capital gains are extremely regressive and highly concentrated among the well-off minority of Canadians. In 1984, the latest year for which taxation data are available from Revenue Canada, taxfilers with incomes over $250,000 accounted for less than one percent of all

taxfilers yet enjoyed one-quarter of the tax savings from the non-taxation of half of capital gains; their average benefit was $20,628 in federal tax savings alone or 106 times the $147 average savings for taxpayers in the middle-income ($20,000 to $30,000) range. The American tax reform, which helped prompt our White Paper, now treats capital gains and dividend income like any other form of income. Canada should do the same.

Nor has a convincing case been advanced for retaining the tax deductions for RPP and RRSP contributions, let alone boosting them considerably in the years to come. We do not oppose using the tax system to encourage savings for retirement; most Canadians probably would agree that this is a worthy policy. What we do oppose is the use of a tax deduction, which rewards most those who least need a government subsidy at an annual cost of over $2 billion. **The Finance Minister should follow his fourth principle of tax reform - consistency - and change the private pension and RRSP deductions into tax credits.**

b. lowering marginal tax rates

The Finance Minister is also reducing the number of tax brackets from ten to three. The top marginal federal tax rate will be lowered from its present 34 percent of taxable income over $63,347 to 29 percent on taxable income over $55,000. Adding in provincial income taxes, the top combined tax rate will fall from an average 53 percent to approximately 45 percent.

The rationale given for this major change is to "provide an increased incentive to earn additional income and thereby encourage investment and business activity". Lowering personal and corporate income tax rates is viewed as necessary to keep Canada competitive with other countries, particularly vis-à-vis the United States. The White Paper also argues that reducing the number of tax brackets will 'simplify' the tax system and so make it "easier for individuals to understand".

Although these arguments are not substantiated in the White Paper, they are commonplace among many economists and appear to be given great credence by the Minister of Finance. They are also debatable.

The notion that lowering marginal tax rates is an effective, just or necessary way to "reward success, by letting Canadians keep more of every dollar they earn to spend or save as they see fit" is open to question. It is difficult to believe that many people actually sit down and weigh the tax consequences of earning more; most paid employees welcome any additional income and many men and women in this country count themselves lucky just to have a job - including the 311,500 Canadians who work full-time and year round yet remain below the poverty line. Will affluent people (who stand to gain most from the reduction in marginal tax rates) really work harder or longer because they will pay less income tax? And should a White Paper that claims to pursue the objective of a fairer, more progressive tax system reward the rich through tax cuts?

The argument that tax reform must keep our tax system competitive with that south of the border does not stand up to scrutiny. Last year Congress passed a tax reform bill that reduced the number of tax brackets to three and lowered tax rates - exactly what the Canadian White Paper proposed this year. After tax reform, the top U.S. federal tax rate is 33 percent; adding in state income taxes and social security contributions (which are four times that of the Canada/ Quebec Pension Plan), the combined top marginal rate comes to 44 percent, which is about the same as our own (45 percent) after tax reform. Moreover the American tax system does not have to pay for the superior social benefits, national health insurance in particular, that our tax system finances. In any event, a proper comparison of the two systems must look at average, not marginal, tax rates. Above all, does the Finance Minister seriously believe that upper-income Canadians will flock to the U.S. in search of lower marginal tax rates?

The 'simplification' argument is equally weak. The White Paper replaces exemptions and some deductions with credits, retains some exemptions and deductions and reduces the number of tax rates from ten to three. How will this set of changes make the tax system "more understandable and less complex"? Are three tax rates easier to grasp than ten? In any event, most Canadians use the tax tables provided by Revenue Canada and do not have to figure out their taxes using the tax rates.

The White Paper contends that most Canadians will have lower marginal tax rates (i.e., the rate applied to taxable income in their highest tax bracket) after tax reform. In point of fact some taxpayers - particularly those in the middle-income range - will end up in a higher top tax bracket after tax reform, although their average tax rate will be reduced. Such is not the case, however, for the affluent, most of whom will enjoy lower marginal and average tax rates. **The majority of higher-income taxpayers will gain more from the reduction in tax rates than they will lose from the conversion of exemptions and deductions to credits.**

The Impact of Tax Reform: the First Year

To gauge the impact of tax reform, we have used both data presented in the White Paper and the results of our own extensive analysis. This section looks at the effects of the income tax reform proposals in 1988, the year they will be put in place. The following part takes a longer-term view of tax reform, plotting trends from 1984 through to 1991.

a. winners and losers

As promised, tax reform will reduce income taxes for the large majority of taxpayers. What is disturbing, however, is how small the gains will be for low and middle-income Canadians and how well the better-off will fare.

According to the Finance Department's estimates, federal and provincial income taxes will drop by an average $295 in 1988 as a result of tax reform. This modest amount represents only a 4.5 percent cut in taxes.

The breakdown of tax savings according to income range is revealing. On balance, households with incomes below $15,000 will see an average reduction of a mere $90 in 1988 in their combined federal and provincial income taxes. Middle-income households come out about $320 ahead. However those with incomes over $100,000 will enjoy an average tax cut of $1,615.

The above figures show the overall impact of income tax reform, averaging in taxpayers who gain from tax reform with those who lose. The White Paper also provides separate statistics on 'winners and losers'. Eight in ten households will pay less income tax and two in ten will pay more. In general, taxfilers who get most of their income from employment and those who can claim few exemptions and deductions will be winners. Those who rely on investments, self-employment or professional earnings will likely face small tax hikes.

Even among the over-$100,000 group, there are more winners (175,000 households) than losers (65,000). Although most in the under-$15,000 category will pay less income tax in 1988 (2,315,000), there are still a sizeable number (335,000) who will pay more.

Table A looks at the 80 percent of Canadian households who will enjoy income tax cuts thanks to tax reform. Households in the lowest (sub-$15,000) group will gain only $140, as shown in column C. By contrast those in the $100,000 and over group will enjoy a generous tax cut of $4,365 on average - 31 times that of the low-income group.

The top $100,000 and above group represents only 2 percent of all households with tax reductions (column D) but will get 18 percent of the tax savings (column E), while the bottom group accounts for 26 percent of all households and just 8 percent of tax benefits. The 'inequality index' is simply the ratio of each income group's share of total tax savings to its percentage of all winning households; results under 1.0 indicate they get less than their fair share of tax cuts, while the higher the figure, the more disproportionately large the group's winnings. At 9.19, it is clear that the over-$100,000 group is far and away the biggest winner from tax reform.

Figure 9 illustrates each income group's percentage of tax savings compared to its percentage of all winning taxpayers. The disproportionate share enjoyed by households with income over $50,000 is evident.

b. tax reform and the poor

The White Paper says that a fair income tax system "should be consistently progressive, imposing little or no burden on those least able to pay". The

fact that tax reform will remove some 850,000 lower-income Canadians from the tax rolls is offered as evidence that this goal will be met.

The 850,000 figure is welcome, but it must be seen in context. As mentioned above, a series of tax changes imposed over the last six years has raised income taxes for most Canadians, the working poor included. At least a million taxfilers have been added to the tax rolls as a result of the elimination of the federal tax reduction and the partial indexation of the tax system.

The White Paper will remove or cut taxes for most lower-income taxpayers, but **many Canadians living below the poverty line will continue to pay income tax after tax reform.** According to the Department of Finance, the federal taxpaying threshold in 1988 for a one-earner couple with two children will rise from $16,770 before tax reform to $18,470 after. The latter figure is $4,963 below the projected poverty line ($23,433) for a family of four living in a metropolitan center. The White Paper says the taxpaying threshold for single persons under 65 will go from $4,940 to $6,220; this is progress, but it represents just 54 percent of the low-income line.

Under the current tax regime, a single parent supporting two children on earnings of $20,000 - roughly the estimated poverty line ($20,336) in 1988 for a family of three in a large city - would owe $1,857 in federal and provincial income taxes. Tax reform will save her $532, but she still pays $1,214 in income taxes.

A working poor one-earner couple and two children with earnings of $17,575 in 1988 - three-quarters of the poverty line - will pay $557 in income taxes after tax reform. The results are the same for working poor two-earner couples and single people. The happy exception is elderly Canadians, who are free from tax if they are below the poverty line.

Tax reform which continues to tax the poor fails a basic test of fairness. There is a feasible solution to this injustice which we already have suggested to the Finance Minister. We propose a low-income tax credit to relieve all Canadians below the poverty line of the burden of income tax.

c. tax cuts according to what standard?

Compared to what income taxes would be in 1988 under the present system, tax reform looks pretty good. The story is quite different if we take as our point of comparison the tax system which existed in 1984, before the various regressive changes noted earlier that have been brought in during the past three years.

Table B shows federal/provincial income taxes for two-earner couples in 1988 under three tax regimes. "Current" refers to today's income tax system as it

would be in 1988 before tax reform. "Old" takes the tax system as it was in 1984 and projects it forward to 1988. "New" gives income taxes after the White Paper's measures are put in effect in 1988. To indicate tax actually payable, we subtract the child tax credit received in the calendar year (in respect of the 1987 taxation year) from basic federal tax. The child tax credit in the old (1984) system (a maximum $416 for each child in 1988) is smaller than under the current and new regimes ($489 per child) because the May 1985 budget phased in an above-inflation increase. We do not deduct the refundable sales tax credit because we do not regard it as part of the personal income tax system; the sales tax credit is intended to offset the impact of recent federal sales tax increases for low-income families and individuals, including those too poor to pay income tax. In any event, very few families in the tax-paying range receive much sales tax credit since its turnover point (the income level above which maximum benefits are reduced by five percent) is only $15,000 in net income.

When compared to the current tax system, tax reform yields savings for two-earner couples with two children in all income groups. (Negative signs indicate less income tax). In absolute terms, tax savings tend to increase with income, although the relationship is not perfectly linear. In percentage terms, tax reform is progressive; lower-income families realize the largest proportionate tax savings. (Because their taxes are low both before and after tax reform, small absolute cuts translate into large percentage reductions.)

However taxes generally would be even lower if the old (1984) system were in place in 1988. Table 2 shows that lower- and middle-income families still will pay more even after tax reform than they did in 1984; only the $50,000 and $75,000 couples will pay less after tax reform than they would under the old (1984) tax regime.

Our analysis covers other family types at different levels. Most elderly singles and couples fare better under the old (1984) system than under tax reform. Single parents, childless couples (both one- and two-earner) and single persons under age 65, on the other hand, tend to do better under tax reform than the old system; however, their gains from tax reform are much smaller if we use the 1984 tax regime as the point of comparison rather than the current system. The picture is mixed for one-earner couples with two children; those with low and high incomes pay less income tax under the new (post-tax reform) system than in the old one, but the modest- and middle-income majority pay more after tax reform than they would if the old system were still in effect.

Figures 10 through 23 illustrate some of our findings. For each family type and income level, we compare federal/provincial income taxes after tax reform ("new tax system") with total taxes under the 1984 regime ("old tax system") and the existing tax system ("current tax system"). **Three conclusions emerge: the gains from tax reform are less impressive if we compare its results with the old (1984) system rather than the current (1987) system. In a number of cases,**

taxpayers still will pay more income tax after tax reform than they would if the 1984 tax regime were in place. Most working poor families and singles still pay income tax after tax reform.

d. tax cuts vary according to the composition of income

Because the White Paper eliminated the $1,000 interest income deduction and made changes to the capital gains exemption, dividend tax credit and the treatment of certain business expense deductions, taxpayers with income from these sources will fare differently from those whose income comes mainly or wholly from employment earnings. Generally speaking, tax reform will benefit Canadians who rely on wages and salaries for their income more than those who obtain income from savings and investments. According to the Finance Department, the tax reform package overall will save taxpayers whose principal source of income is employment an average of $285 in 1988, whereas those who rely on sources such as investments, self-employment or professional earnings will pay marginally more income tax ($65) though their average tax rate will still be lower than that for employees after tax reform. In this sense, then, tax reform is progressive since most lower- and middle-income taxpayers get the bulk of their income from employment.

It is important to remember, on the other hand, that most taxpayers - including some (especially retirees) with low incomes - have some interest income, even if the amount is small in absolute terms. Our analysis, like the Finance Department's, builds in assumptions about interest income. The impact of tax reform on taxpayers at the same income level varies significantly according to the amount of their interest income.

Table C shows federal/provincial income taxes for single persons under age 65 at different earnings levels before and after tax reform. To keep things simple, Column A assumes that taxfilers at each income level have $1,000 in interest income; in reality, lower-income taxfilers on average have somewhat less than $1,000 whereas those with higher incomes have substantially more. Column B assumes $500 in interest income and Column C assumes no interest income.

Because the White Paper scraps the $1,000 interest income deduction, taxpayers with little or no interest income do better from tax reform than those with interest income. Single people with $15,000 in earnings will pay $113 more in income taxes after tax reform if $1,000 of their income comes from investments; fortunately most taxpayers at this income level have less interest income than $1,000. If their $15,000 includes only $500 worth of interest earnings, tax reform will save them $31; if they have no investment income, they will enjoy a tax saving of $174 in 1988.

Single taxpayers with incomes of $20,000 or more will realize tax cuts no matter how much interest income they have. However those with little or no interest income will come out further ahead than those with some income from this source.

For example, a single woman or man earning $35,000 in 1988 will see a $753 tax cut if none of that income is from investments, $556 if investment income is $500 and only $358 if investment earnings are $1,000. The tax saving for the $35,000 taxpayer with no interest income is double that for someone with exactly the same income but $1,000 of that income from investments.

e. horizontal equity: families with and without children

Under the banner of fairness, the White Paper states that "there should be less variation than now in the tax position of individuals in similar economic circumstances". Our analysis of the tax reform proposals finds mixed evidence on this issue of horizontal equity.

Table D compares the impact of tax reform on two-earner couples with two children to that of childless two-earner couples. Only lower-income families with children realize larger tax savings than childless couples at the same income levels shown ($15,000 and $20,000). For instance, a two-earner couple raising two children on combined spouses' earnings of $20,000 ($3,433 below the estimated poverty line in 1988) will pay $969 after tax reform as opposed to $1,138 before, for a saving of $169 or 14.9 percent in total income taxes. A childless couple earning the same $20,000 will pay $1,944 after tax reform compared to $2,164, resulting in a saving of $220 or 10.2 percent. While the $20,000 childless couple sees a larger tax saving in absolute terms ($220 versus $169), in percentage terms its tax cut is smaller than that of the two-earner couple with two children.

However Table D also shows that two-earner couples earning $25,000 or more will save more from tax reform if they have no children. The percentage tax reduction for a childless couple earning $45,000 is a substantial 14.8 percent; a couple with $45,000 (roughly average income) and two children saves only 3.3 percent. The reason for the difference is that middle- and upper-income families with children lose child benefits as a result of tax reform, as explained later.

Table D also gives the total tax bill for two-earner couples with two children as a percentage of that for childless couples at each earnings level. Again, only low-income families with children come out better after tax reform; the $20,000 parents pay 52.6 percent of the tax bill of the $20,000 couple with no children before tax reform and 49.8 percent after. On the other hand, for most families with children the ratio of their income taxes to those paid by childless couples with the same earnings is higher, not lower, after tax reform. Put simply, **tax reform favors middle- and upper-income childless couples over middle- and upper-income families with children.**

Our analysis produced similar results for one-earner families.

Tax Reform Over Time

It is not enough to point only to tax advantages for the majority of Canadians when tax reform first blooms in 1988, as the White Paper does. A balanced assessment requires an analysis of how reform of the personal income tax system fits into the longer-term trend in the overall tax burden, including federal sales and excise taxes as well as income taxes. Viewed from this broader perspective, the initial appeal of the tax proposals fades quickly.

a. a fatal flaw: failure to re-index the tax system

The 1973 budget did the Canadian taxpayer a favor by indexing the personal income tax system, a change which ensured that taxes no longer would increase faster than inflation. The May 1985 budget took a step backward in shifting the tax system from full to partial inflation protection: personal exemptions and tax brackets are now indexed by the amount that inflation exceeds three percent, not by the full increase in the cost of living. The White Paper did not re-index the income tax system.

Partial indexation particularly hurts lower-income taxpayers, who bear a proportionately larger tax increase as a result. It amounts to an enormously lucrative, hidden tax grab that is built into the tax system and goes virtually unrecognized by the taxpayer.

Partial indexation will begin eating away at the White Paper's much-vaunted tax reductions the year after tax reform is implemented.

Table E gives the trend in total income taxes from 1988 (the year of tax reform) to 1991 for single elderly Canadians at different income levels. (The figures are expressed in constant 1987 dollars to permit meaningful comparison over time). Pensioners in each income group listed, from low to high, will enjoy a tax cut in 1988 thanks to tax reform but their taxes will mount steadily thereafter as a result of the White Paper's failure to re-index the tax system.

TABLE E

TOTAL INCOME TAXES, SINGLE PENSIONERS, BY INCOME, 1988 TO 1991

1984 Income	$15,000	$20,000	$30,000	$50,000	$75,000
1988	$ 1,890	$ 3,400	$ 7,461	$16,585	$29,735
1989	1,963	3,467	7,623	17,061	29,895
1990	2,053	3,567	7,855	17,418	30,331
1991	2,113	3,617	7,976	17,545	30,370
Change 1988/1991	11.8%	6.4%	6.9%	5.8%	2.1%

Tax reform must restore full indexation of the income tax system. Tax brackets and credits - including the refundable sales tax credit, child tax credit and our proposed low-income tax credit - should be fully indexed to the cost of living each year.

b. short-term gain, long-term pain

Partial indexation will begin to erode the benefits of tax reform as early as 1989. Looking back several years before tax reform casts the White Paper in an even more critical light.

Tax reform will provide only partial and temporary relief from the upward march of taxes during the 'eighties. Figure 28 plots the trend in total income taxes between 1984 and 1991 for a single parent raising two children on earnings equal to the poverty line ($19,544 in 1987). Taxes go up each year from 1984 to 1987 as a result of the various tax changes discussed earlier. Total taxes payable drop from $1,802 in 1987 to $1,355 in 1988 thanks to tax reform. Note that the 1988 amount is still higher than the tax bill of $1,214 in 1984.

However even with the substantial increase in the child tax credit, partial indexation sends taxes steadily upward from 1989 to 1991. The tax load increases by 30.8 percent between 1984 and 1987, drops by 12.9 percent in 1988 and rises another 13.8 percent from 1989 to 1991. Taxes are a substantial 21.9 percent - over one-fifth - higher in 1991 than in 1984.

Tax reform brings only a one-time dip in the rising tax burden. Figure 35 describes the roller-coaster trend of income taxes for a middle-income elderly couple with a 1984 income of $30,000 (assuming income keeps pace with inflation, this would amount to just under $33,700 in 1987). The pattern is the same as for the lower-income single parent - rising taxes from 1984 to 1987, a brief respite in 1988 (though still more than 1984 and 1985) and then a resumption of the upward march thereafter. The couple will pay one-third more federal and provincial income taxes in 1991 ($5,049) than in 1984 ($3,800).

Figures 24 through 35 chart trends in total income taxes for low- and middle-income families and single persons of various types - two-earner and one-earner couples with children, childless couples, single parents, single persons under age 65 and both single seniors and pensioner couples. **The pattern is strikingly consistent: short-term gain, long-term pain.**

c. the falling tax threshold

The White Pater claims that tax reform will raise the federal taxpaying threshold (i.e., the income level at which federal income tax becomes payable). In fact, **tax reform will provide only temporary respite from the downward trend in the taxpaying threshold.**

Figure 36 charts the tax threshold for single persons under age 65 from 1984 to 1991 and Figure 37 shows the tax threshold as a percentage of the poverty line. The tax threshold declines from $7,602 in 1984 (68.4 percent of the poverty line) to $4,889 in 1987 (44.1 percent of the poverty line). The onset of tax reform in 1988 lifts the tax threshold up to $5,971 or 54 percent of the poverty line but partial indexation of the tax system pushes it back down after 1988. By 1991, federal income taxes apply at earnings of $5,448 or just under half the poverty line.

The Decline of Child Benefits

The May 1985 budget announced a substantial boost in the child tax credit, from $384 per child in 1985 to $454 in 1986, $489 in 1987 and $524 for the 1988 taxation year. From 1989 on, the child tax credit will be limited to indexation in the amount of inflation over three percent, which guarantees a three percent decline each year in real terms. The 1985 budget also lowered the turnover point for maximum benefits from $26,330 to $23,500 for 1986, after which it will be adjusted by the same partial indexation formula.

The 1985 budget also partially de-indexed family allowance payments effective January of 1986, so the baby bonus will decline in real value by three percent each year. The children's tax exemption was reduced from $710 (a level at which it had been frozen since 1983) to $560 per child in 1987 and a planned $470 in 1988, after which it was to be set at the level of the family allowance.

Despite the increase in the child tax credit, many poor and all middle- and upper-income families with children are receiving lower total child benefits as a result of the reduction in the children's tax exemption (which increases taxes) and the attrition in family allowances from partial indexation. After 1990, even the poorest families would lose from this set of changes to child benefits.

The White Paper will not remedy this erosion of federal child benefits. While the changes made to the family allowance and child tax credit by the 1985 budget remain intact, the children's tax exemption will be replaced by a children's credit. The latter is a non-refundable flat-rate credit of $65 per child, unlike the more generous diminishing refundable tax credit that was introduced in 1978.

On the face of it, this change would appear fair, since the children's tax exemption is regressive whereas the new non-refundable children's credit is progressive in impact. However a detailed analysis of the multiple effects of the White Paper proposals indicates that **most families with children will lose child benefits as a result of tax reform.**

Table F gives a breakdown of the three child benefits in 1988 before and after tax reform. Net family allowance is gross family allowances less the amount of income tax paid on it. Total child benefits are the sum of net family allowance, the refundable child tax credit and the value of the children's exemption (before tax reform) and the non-refundable children's credit (after tax reform).

TABLE F

CHILD BENEFITS, TWO-EARNER COUPLES WITH TWO CHILDREN, BEFORE AND AFTER TAX REFORM, 1988

Family Earnings	Net Family Allowance	Refundable Child Tax Credit	Children's Exemption/ Credit	Total Child Benefits
$23,433				
after	$566	978	202	1746
before	542	978	282	1801
change	24	0	-80	-56
$45,000				
after	456	132	202	790
before	493	262	342	1097
change	-37	-130	-140	-307
$75,000				
after	419	0	202	621
before	407	0	446	853
change	12	0	-224	-232

A two-earner couple with two children and earnings equal to the estimated 1988 low-income line ($23,433) would end up with $1,801 in total child benefits under the present tax system, made up of $542 in net (after-tax) family allowance, $978 from the child tax credit and $282 in tax savings from the children's tax exemption. The family's net family allowance goes up a bit (to $566) after tax reform because its federal/provincial marginal tax rate is a bit lower after tax reform (26 percent) than before (28 percent). There is no change in the child

tax credit, which is the maximum ($489 per child) under both tax regimes. However the new non-refundable children's credit has been set so low (only $65 per child) that even this lower-income family suffers an $80 loss. All in all, then, the poverty-line family loses $56 in child benefits or 3 percent.

The $45,000 family counts as solidly middle-income. In absolute terms, it loses the most of the three families in total child benefits - $307 - as a result of tax reform. This amounts to a hefty 28 percent cut in child benefits in the first year of tax reform.

This middle-income family gets $37 less in net family allowances because its marginal tax rate actually increases after tax reform. Its net income increases since it no longer has deductions for employment expenses, Canada/Quebec Plan contributions and unemployment insurance premiums. As a result, it loses $130 in refundable child tax credits, which are based on net family income. (Upwards of a million other middle-income families will get lower child tax credits because of tax reform.) The family suffers most - $140 - from the conversion of the children's tax exemption to a credit.

The $100,000 family gains fractionally ($12) in net family allowance but loses $244 from the switch to a children's credit. It neither gains nor loses refundable child tax credits since its income is too high to qualify for this income-tested benefit. In total, the well-off family loses $232 in child benefits which represents a 27 percent cut - slightly less than the middle-income family.

Figure 38 illustrates the percentage change in child benefits for two-earner couples at income levels ranging from $15,000 to $100,000. All the families lose child benefits. Middle-income families in the $45,000 to $50,000 range are hit hardest because they lose both child tax credits and tax savings as a result of the switch from a children's exemption to a credit.

The long-term picture is shocking. Table G compares total net child benefits for two-earner couples with two children in 1984 with what they will receive in 1991 after tax reform. **The poorest families with no earnings (welfare recipients, in most cases) are no better off in 1991 than they were in 1984; what they gain in the refundable child tax credit (which was raised after the 1985 budget) is exactly cancelled out by the same budget's decision to partially de-index family allowance payments. All other families with children, including the working poor, will suffer substantial losses in child benefits. Middle-income families will be hit hardest, losing more than half of their total child benefits.**

Figure 39 plots the percentage loss in child benefits between 1984 and 1991 for two-earner couples with two children. Figure 40 compares their total child benefits in 1984 and 1991.

The government's own Consultation Paper on Child and Elderly Benefits released in 1984 affirmed that no change in children's benefits should result in funds being siphoned out of that important policy area. Yet the Finance Minister's first budget in May 1985 did just that, removing millions from the child benefits budget. The White Paper will continue the squeeze on families with children who, as a result, will find themselves disadvantaged vis-à-vis childless couples with the same income.

We urge the Finance Minister to fully index family allowances and both the refundable and non-refundable children's tax credits. Additional increases should be made to the refundable child tax credit to prevent losses to middle-income families and to improve child benefits for low-income families.

The Joker in the Deck: Sales Tax Reform

Since the Standing Committee on Finance and Economic Affairs is dealing first with reform of the personal and corporate income taxes and will consider the federal sales tax later, this brief does not discuss consumption taxes at any length. However, despite the fact that the Finance Minister has postponed fundamental changes to the federal sales tax until "Stage Two" at an unnamed future date, we wish to make a few initial comments on the idea of moving to a comprehensive sales tax. To ignore the federal sales tax altogether is to leave out a major component of the government's overall plan of tax reform that will have a major impact on all Canadians.

Recent budgets have not only raised income taxes. They also have imposed a series of increases in the federal sales tax. Even taking into account the introduction of the refundable sales tax credit, **the overall burden of income and sales taxes has increased significantly for Canadians on all rungs of the income ladder.** Proportionately, those with low and modest incomes have been hardest hit by recent tax hikes.

Table H calculates the federal/provincial income taxes and federal sales and excise taxes paid by two-earner couples with two children. The combined income/sales tax burden for a middle-income family earning $40,000 came to $7,276 in 1984 and will rise to an estimated $8,779 in 1988 - a sizeable $1,503 or 20.7 percent increase. The total tax bill for a $25,000 family goes from $3,084 in 1984 to $4,278 in 1988 - a 38.7 percent jump in just four years. By contrast, the $100,000 couple's total taxes increase by only 11.2 percent. Figure 41 illustrates total sales and income taxes for the families shown in Table H; Figure 42 shows the percentage increase. Figures 43 and 44 look at single Canadians' rising tax burden.

As is evident from this brief, the National Council of Welfare does not believe that the package of personal income tax reforms contained in the White Paper will move Canada very far along the road to the progressive tax systrem that we think just and necessary. Yet however much the personal income tax system can be faulted, it is the only part of the overall tax system that is based on the

principle of ability to pay. Consumption taxes are inherently regressive. Therefore we must oppose as a matter of principle the government's plan to decrease its revenue take from personal income tax and to rely more heavily on a comprehensive sales tax covering a wide range of goods and services, including basic necessities.

The Finance Minister contends that the "personal income tax and the sales tax, taken together, should become more progressive than they now are". We have serious doubts about the tax reform plan's capacity to achieve a more progressive income tax system, in view of the regressive impact of partial indexation and the continuation of lucrative tax breaks for taxpayers at the top of the income ladder who will benefit handsomely from lower tax rates, the capital gains exemption and private pension and RRSP deductions.

We are equally concerned about the capacity of an enhanced sales tax credit to adequately protect poor Canadians from the impact of higher consumption taxes. Our own estimates indicate that the refundable sales tax credit would have to be boosted by a very substantial amount (from the current $75 per adult and $35 per child to around $400 per adult and $200 per child) in order to shield low-income consumers from the present federal sales tax, let alone the heavier tax load that an expanded sales tax would entail.

Even if it were large enough when introduced, to remain effective over time an expanded sales tax credit and its turnover point would have to be fully indexed; the current credit is not even partially indexed. Above and beyond inflation, the sales tax credit would have to be increased if and when the new sales tax were increased. Benefits would have to be delivered frequently (at least quarterly, preferably monthly) in order to effectively offset increased costs to low-income consumers. The federal government would have to work closely with the provinces to ensure that the full amount of an enlarged sales tax credit were delivered to welfare recipients and not counted as income for purposes of determining their social assistance benefits or (more perniciously) taken into account when setting benefit changes.

Even if the poor could be fully shielded from the new sales tax, what about the middle class, especially families in the $25,000 to $40,000 range with incomes above the poverty line but below the average? Will their total tax burden from income and sales taxes, which recent budgets have raised considerably, be kept in check? It will require significant additional cuts in their income taxes (a move that has been promised for Stage Two) and the restoration of full indexation of the tax system and child benefits to accomplish such a feat.

Rather than rely on an expanded federal sales tax for more revenue, we believe that the personal income tax system should be made more progressive and that upper-income Candians should not be handed tax breaks they do not need.

Table A

TAX REFORM WINNERS, BY INCOME GROUP, 1988

A Household Income ($000)	B Number of Winning Households	C Average Tax Savings	D Percentage of Winning Households	E Percentage of Total Tax Savings	F Inequality Index (E/F)
Under $15	2,315,000	$ 140	26.2%	7.7%	0.29
15-30	2,910,000	405	32.9	28.0	0.85
30-50	2,090,000	470	23.6	23.4	0.99
50-100	1,360,000	700	15.4	22.6	1.47
Over $100	175,000	4,365	2.0	18.2	9.19
Total	8,885,000	475	100.0	100.0	

TABLE B

TOTAL INCOME TAXES, TWO-EARNER COUPLES WITH TWO CHILDREN, BY EARNINGS AND TAX REGIME, 1988

Family Earnings	A Old Tax System (1984)	B Current Tax System (1987)	C After Tax Reform (1988)	D Change (C-B) $	 %
	Federal and Provincial Incomes Taxes**				
$15,000	0	38	0	- 38	-100.0%
20,000	796	1,128	969	-169	-14.9
23,433*	1,655	2,072	1,850	-221	-10.7
25,000	1,718	2,118	1,850	-268	-12.7
30,000	2,961	3,520	3,257	-263	- 7.5
35,000	4,487	5,122	4,718	-404	- 7.9
40,000	5,381	6,534	6,113	-421	- 6.4
45,000	7,502	8,325	8,049	-276	- 3.3
50,000	9,292	8,721	8,418	-303	- 3.5
75,000	16,452	16,358	15,952	-406	- 2.5
100,000	25,245	25,800	25,267	-533	- 2.1

* poverty line in 1988
** basic tax less child tax credits

TABLE C

IMPACT OF TAX REFORM, SINGLE PERSONS UNDER 65, BY EARNINGS AND INTEREST INCOME, 1988

Change* in Federal and Provincial Income Taxes

Earnings	A $1,000 Interest Income		B $500 Interest Income		C No Interest Income	
	$	%	$	%	$	%
$10,000	$ 177	22.2%	$ 48	5.2%	$ 80	- 7.6%
15,000	113	5.3	-31	-1.3	-174	- 7.2
20,000	-41	-1.1	-192	-5.1	-343	- 8.8
25,000	-261	-5.1	-416	-7.9	-589	-10.9
30,000	-340	-5.0	-519	-7.4	-703	- 9.8
35,000	-358	-4.7	-556	-7.1	-753	- 9.4
40,000	-410	-4.4	-608	-6.4	-805	- 8.3
45,000	-545	-4.9	-742	-6.5	-940	- 8.1
50,000	-951	-7.4	-1,188	-9.1	-1,425	-10.8
100,000	-877	-2.5	-1,146	-3.2	-1,414	- 4.0

*Total income taxes after tax reform less taxes before tax reform

TABLE D

TOTAL INCOME TAXES, TWO-EARNER COUPLES WITH TWO CHILDREN VERSUS CHILDLESS COUPLES, BEFORE AND AFTER TAX REFORM, 1988

Federal and Provincial Income Taxes

Family Earnings	Couple With Two Children			Childless Couple			Couple With Children as % of Childless Couple	
	before	after	% change	before	after	% change	before	after
$15,000	$ 38	0	-100.0%	$ 1,060	$ 838	-20.9%	3.6%	-
20,000	1,138	969	-14.9	2,164	1,944	-10.2	52.6	49.8%
25,000	2,118	1,850	-12.7	3,534	2,826	-20.0	59.9	65.5
30,000	3,520	3,257	- 7.5	4,937	4,030	-18.4	71.3	80.8
35,000	5,122	4,718	- 7.9	6,390	5,261	-17.7	80.2	89.7
40,000	6,534	6,113	- 6.4	7,760	6,418	-17.3	84.2	95.2
45,000	8,325	8,049	- 3.3	9,437	8,040	-14.8	88.2	100.1
50,000	8,721	8,418	- 3.5	9,856	8,346	-15.3	88.5	100.9
75,000	16,358	15,952	- 2.5	17,702	15,839	-10.5	92.4	100.7
100,000	25,800	25,267	- 2.1	27,424	25,117	- 8.4	94.1	100.6

TABLE G

TOTAL CHILD BENEFITS, CONSTANT (1987) DOLLARS, TWO-EARNER COUPLE WITH TWO CHILDREN, BY FAMILY EARNINGS, 1984 AND 1991

	Total Child Benefits*			
Family Earnings	1984	1991	$ Change	% Change
$ 0	$1,586	$1,586	$ 0	
½ poverty line ($11,266)	1,653	1,583	-70	-4.3%
¾ poverty line ($16,899)	1,813	1,583	-230	-12.7
poverty line ($22,532)	1,828	1,514	-314	-17.2
2 poverty line ($45,064)	1,504	579	-925	-61.5
3 poverty line ($67,596)	1,139	579	-560	-49.2
4 poverty line ($90,128)	1,181	546	-634	-53.7
5 poverty line ($112,660)	1,181	546	-634	-53.7

* In 1984, net (after-tax) family allowance, refundable child tax credit and children's tax exemption; in 1991, net family allowance, refundable child tax credit and non-refundable children's tax credit.

TABLE H

CHANGE IN TOTAL TAX BURDEN, TWO-EARNER COUPLE WITH TWO CHILDREN, BY EARNINGS, 1984-1988

($ 1987 constant)

Family Earnings	Income Taxes 1984	Income Taxes 1988	Consumption Taxes 1984	Consumption Taxes 1988	Total Tax Burden 1984	Total Tax Burden 1988	$ Increase	% Increase
$25,000	$ 1,306	$ 2,163	$1,778	$2,115	$ 3,084	$ 4,278	$1,194	38.7%
30,000	2,592	3,647	1,491	1,744	4,083	5,391	1,308	32.0
35,000	3,921	5,078	1,721	2,054	5,642	7,132	1,490	26.4
40,000	5,328	6,420	1,948	2,359	7,276	8,779	1,503	20.7
50,000	8,874	9,752	2,054	2,493	10,928	12,245	1,317	12.1
60,000	11,618	12,802	2,339	2,876	13,957	15,678	1,721	12.3
70,000	14,910	16,586	2,558	3,139	17,468	19,725	2,257	12.9
80,000	19,578	22,075	2,930	3,601	22,508	25,676	3,168	14.1
90,000	23,684	26,352	3,202	3,889	26,886	30,241	3,355	12.5
100,000	30,144	33,144	3,282	4,026	33,426	37,170	3,744	11.2

Note

Consumption taxes are federal sales and excise taxes.

TABLE I

CHANGE IN TOTAL TAX BURDEN, SINGLE PERSON UNDER AGE 65, BY EARNINGS, 1984-1988

($ 1987 constant)

Family Earnings	Income Taxes 1984	Income Taxes 1988	Consumption Taxes 1984	Consumption Taxes 1988	Total Tax Burden 1984	Total Tax Burden 1988	$ Increase	% Increase
$10,000	$ 617	$ 1,015	$ 898	$1,033	$ 1,515	$ 2,048	$ 533	35.2%
15,000	1,812	2,183	1,136	1,311	2,948	3,494	546	18.5
20,000	3,089	3,476	1,372	1,627	4,461	5,103	642	14.4
25,000	4,304	4,647	1,449	1,732	5,753	6,379	626	10.9
30,000	5,998	6,370	1,635	1,977	7,633	8,347	714	9.4
40,000	9,057	10,045	1,996	2,441	11,053	12,486	1,433	13.0
50,000	14,357	16,257	2,021	2,463	16,378	18,720	2,342	14.3
60,000	19,695	21,813	2,802	3,574	22,497	25,387	2,890	12.8
70,000	27,710	29,614	2,628	2,972	30,338	32,586	2,248	7.4

Note

Consumption taxes are federal sales and excise taxes.

Figure 1

DISTRIBUTION OF INCOME AMONG FAMILIES, BEFORE AND AFTER INCOME TAXES AND TRANSFERS, 1985

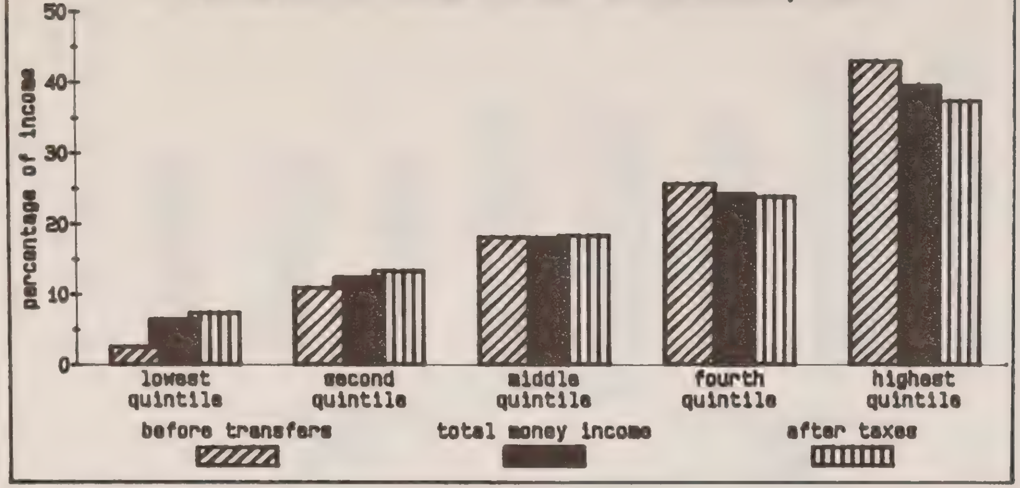


Figure 2

DISTRIBUTION OF INCOME AMONG UNATTACHED INDIVIDUALS, BEFORE AND AFTER INCOME TAXES AND TRANSFERS, 1985

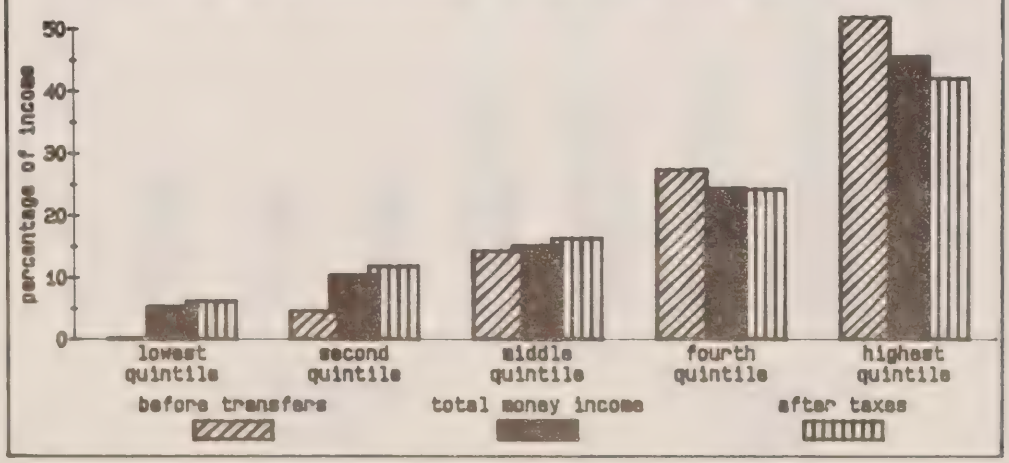


Figure 3

VALUE OF BASIC PERSONAL EXEMPTION AND BASIC PERSONAL CREDIT, SINGLE PERSON UNDER AGE 65, BY EARNINGS, 1988

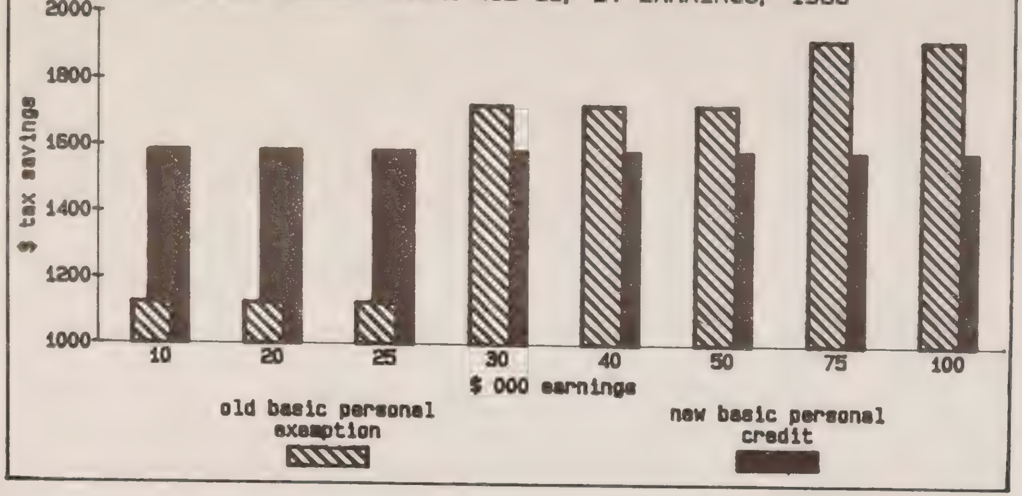


Figure 4

VALUE OF CHILDREN'S AND MARRIED EQUIVALENT EXEMPTIONS AND CREDITS, SINGLE PARENTS WITH TWO CHILDREN, BY EARNINGS, 1988

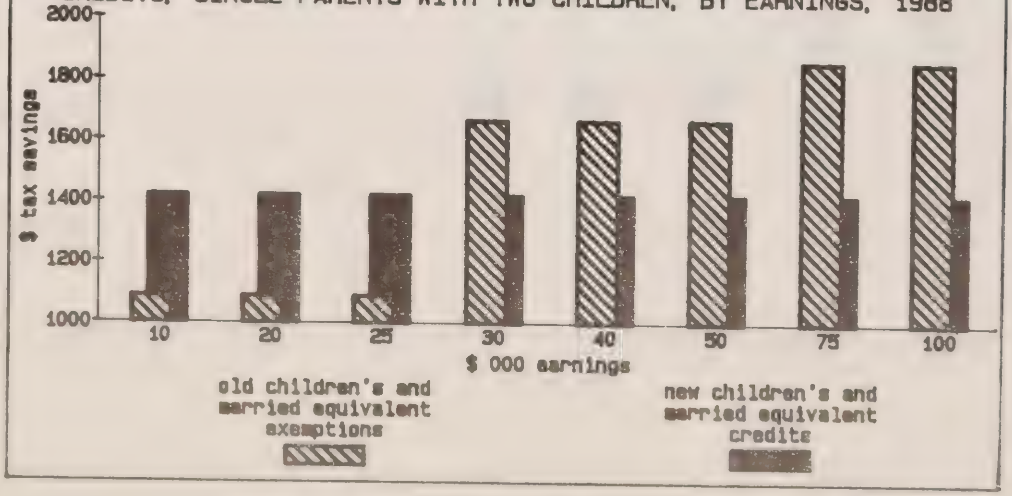


Figure 5

VALUE OF MARRIED EXEMPTION AND MARRIED CREDIT, ONE-EARNER COUPLES WITH TWO CHILDREN, BY EARNINGS, 1988

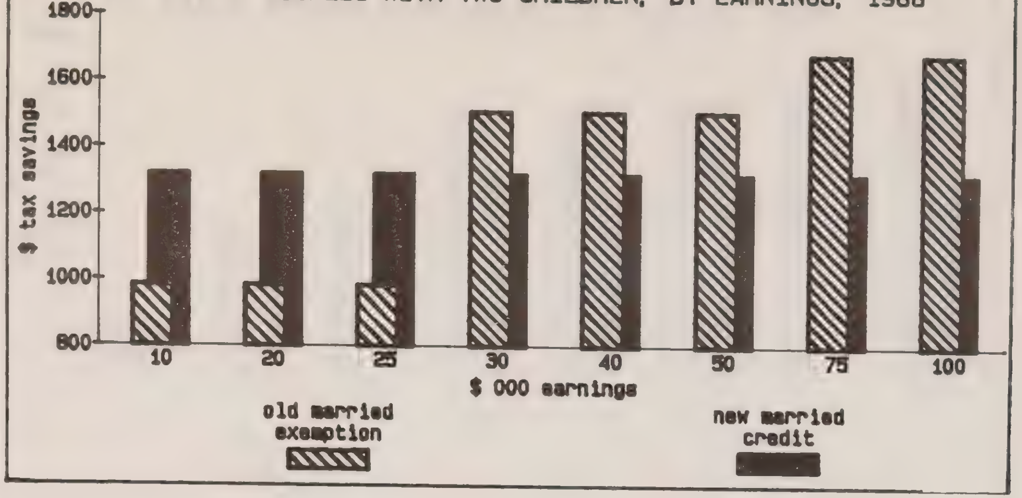


Figure 6

VALUE OF AGE EXEMPTION AND AGE CREDIT, SINGLE PENSIONERS, BY INCOME, 1988

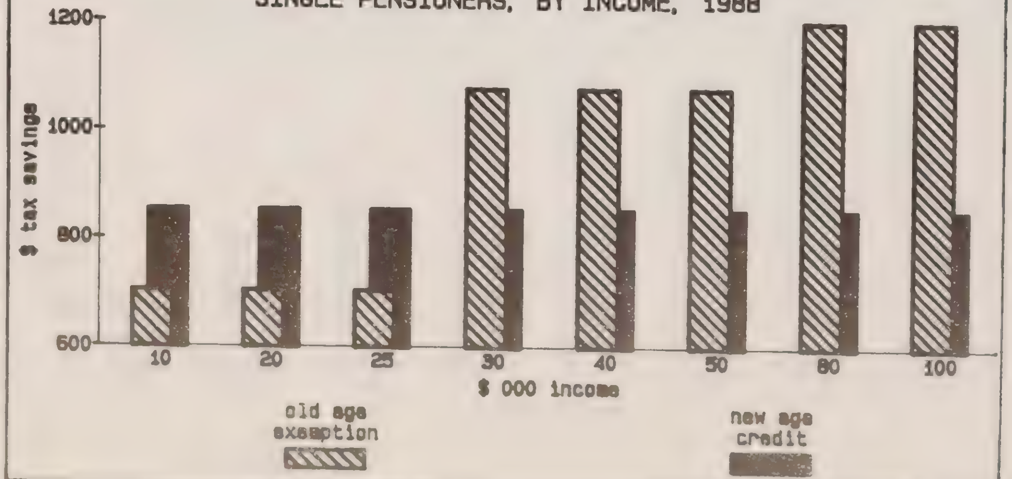


Figure 7

VALUE OF CANADA/QUEBEC PENSION PLAN DEDUCTION AND CREDIT, SINGLE PERSON UNDER AGE 65, BY EARNINGS, 1988

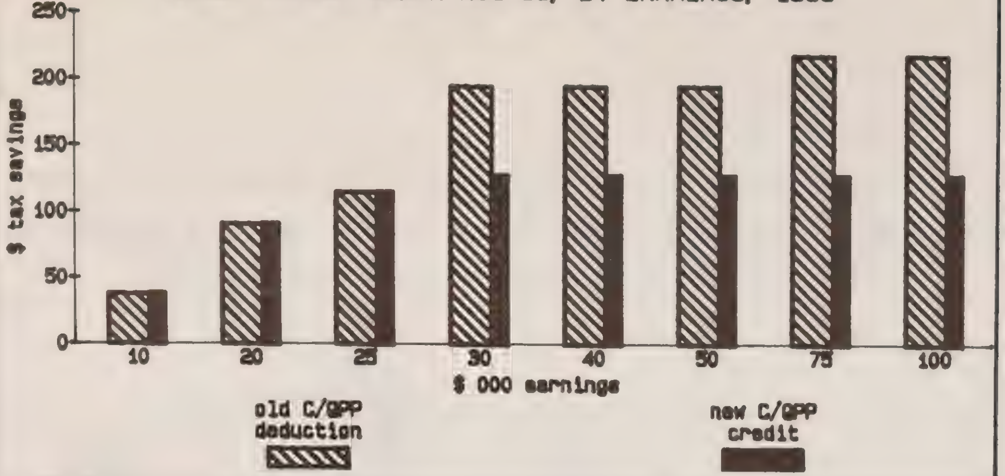


Figure 8

VALUE OF UNEMPLOYMENT INSURANCE DEDUCTION AND CREDIT, SINGLE PERSON UNDER AGE 65, BY EARNINGS, 1988

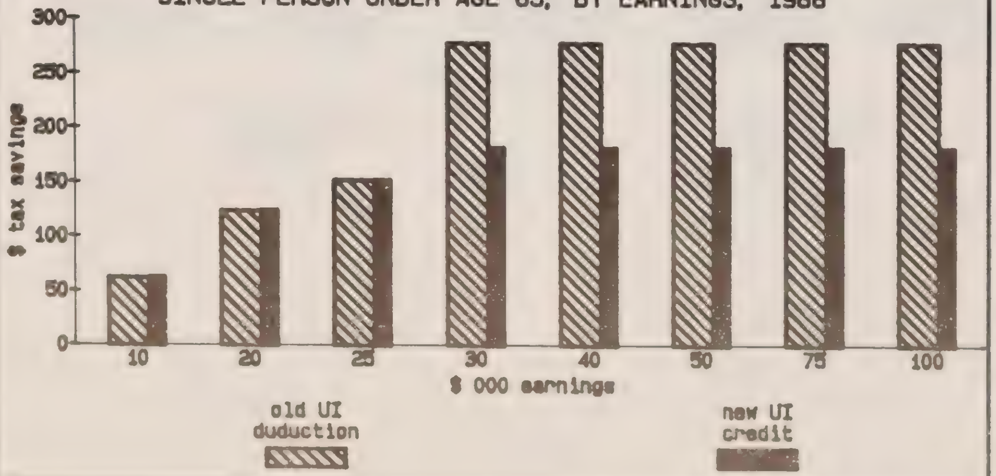
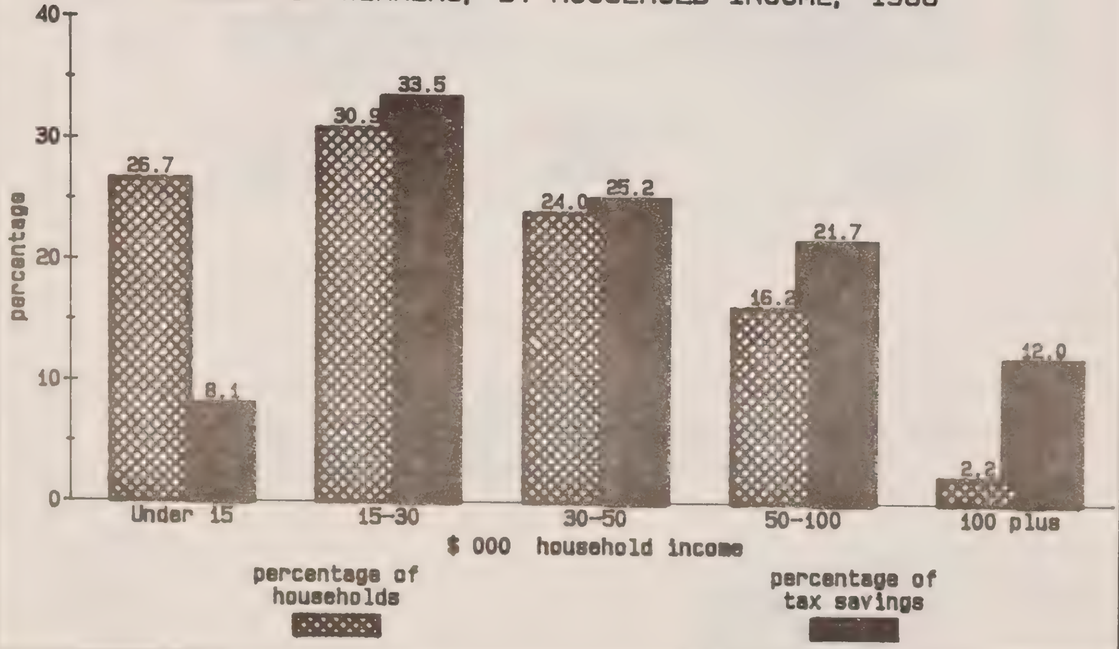


Figure 9

TAX REFORM WINNERS, SHARE OF INCOME TAX SAVINGS COMPARED TO SHARE OF WINNERS, BY HOUSEHOLD INCOME, 1988



NCW 1987

Figure 10

TOTAL INCOME TAXES, LOW-INCOME TWO-EARNER COUPLES WITH TWO CHILDREN, BEFORE AND AFTER TAX REFORM, 1988

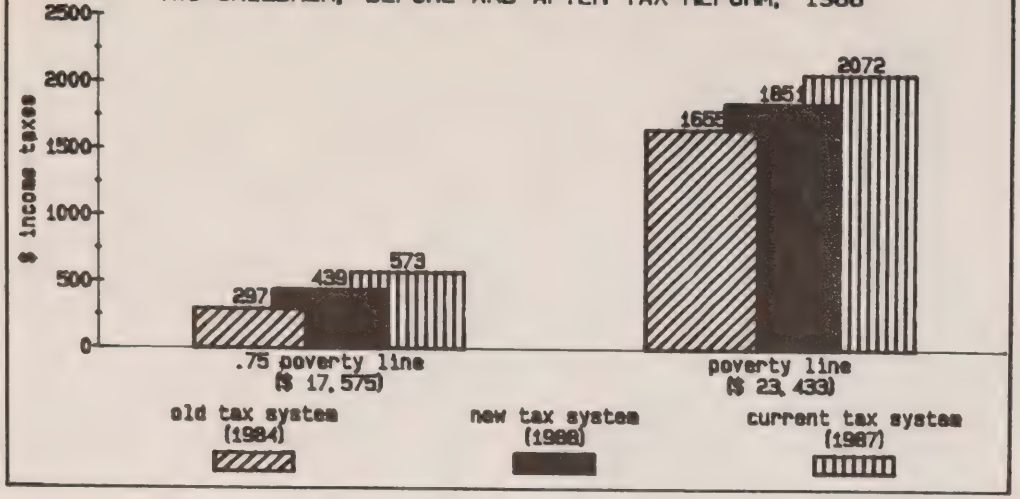


Figure 11

TOTAL INCOME TAXES, MIDDLE-INCOME TWO-EARNER COUPLES WITH TWO CHILDREN, BEFORE AND AFTER TAX REFORM, 1988

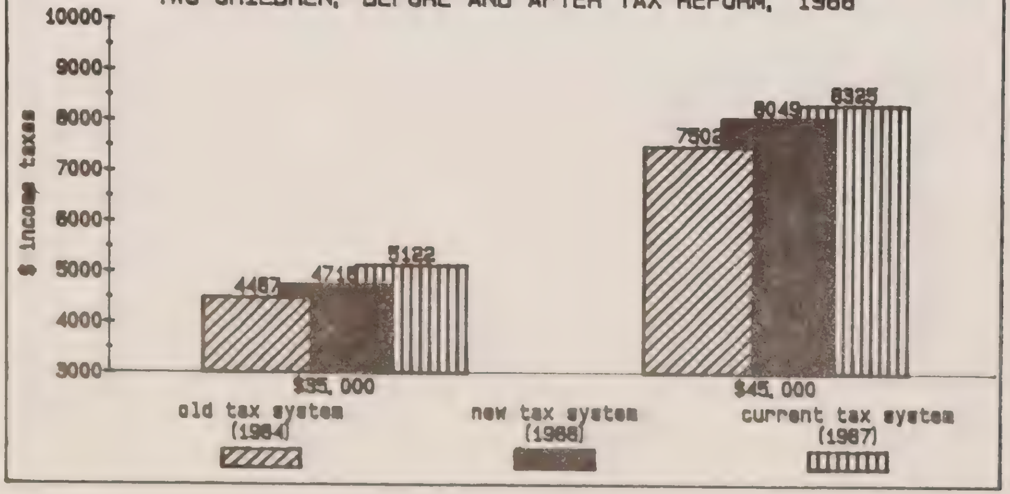


Figure 12

TOTAL INCOME TAXES, LOW-INCOME ONE-EARNER COUPLES WITH TWO CHILDREN, BEFORE AND AFTER TAX REFORM, 1988

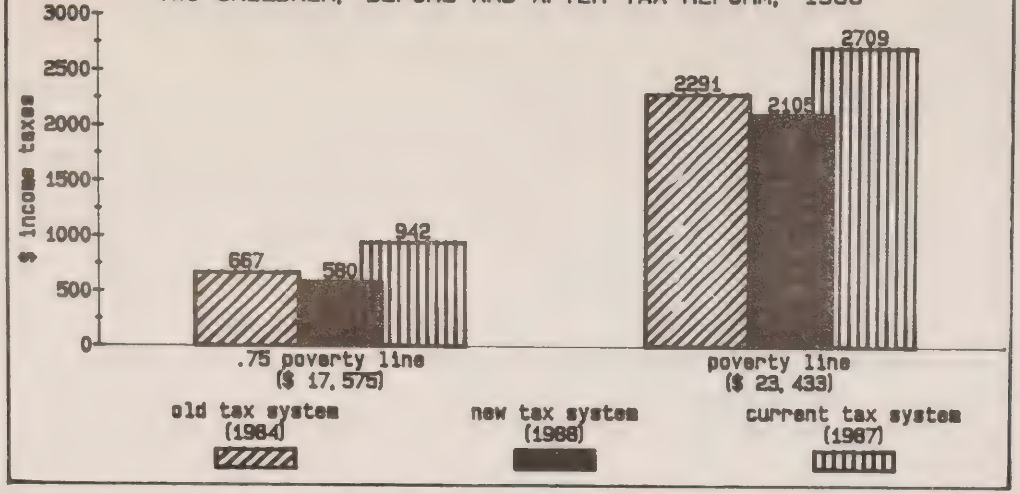


Figure 13

TOTAL INCOME TAXES, MIDDLE-INCOME ONE-EARNER COUPLES WITH TWO CHILDREN, BEFORE AND AFTER TAX REFORM, 1988

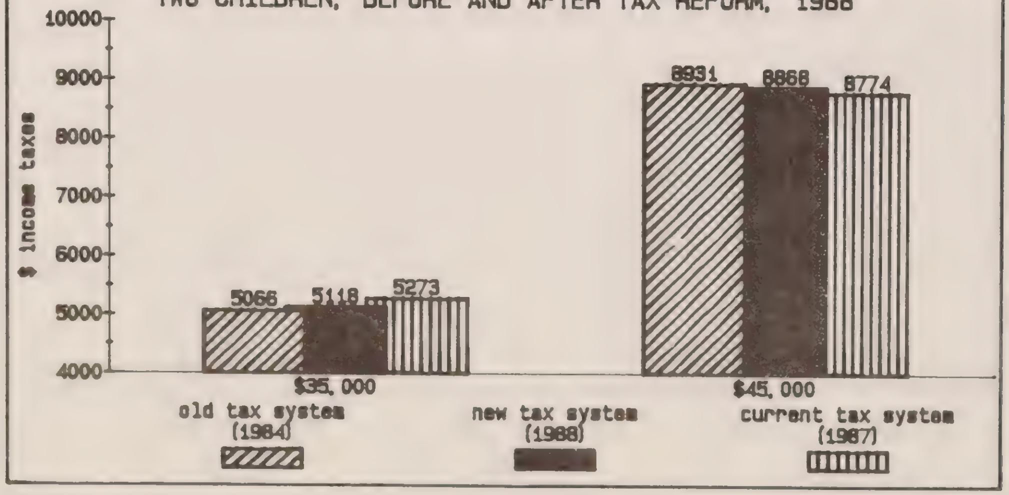


Figure 14

TOTAL INCOME TAXES, LOW-INCOME SINGLE PARENTS WITH TWO CHILDREN, BEFORE AND AFTER TAX REFORM, 1988

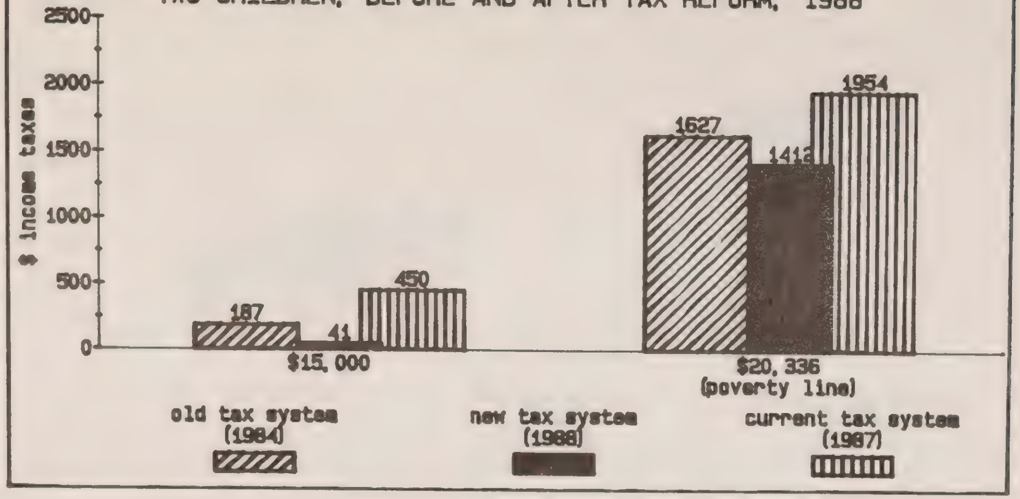


Figure 15

TOTAL INCOME TAXES, MIDDLE-INCOME SINGLE PARENTS WITH TWO CHILDREN, BEFORE AND AFTER TAX REFORM, 1988

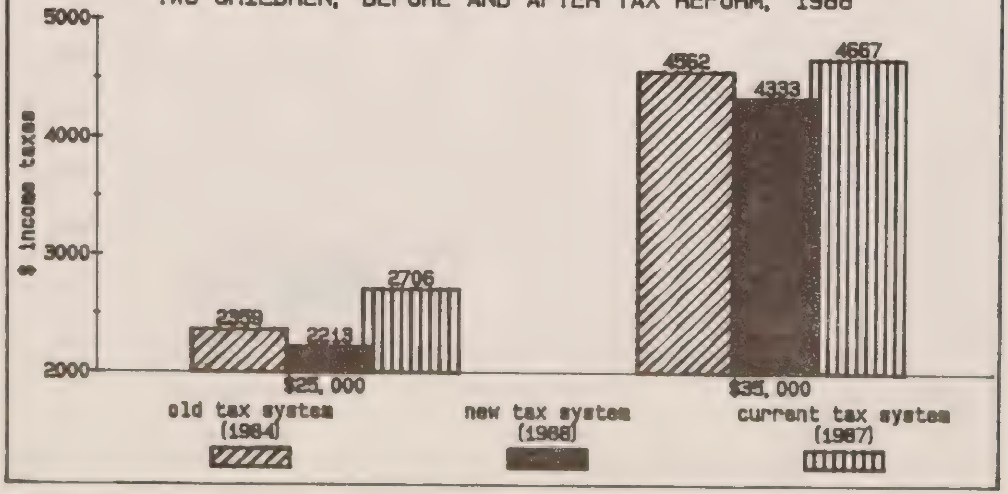


Figure 16

TOTAL INCOME TAXES, LOW-INCOME SINGLE PERSONS UNDER 65, BEFORE AND AFTER TAX REFORM, 1988

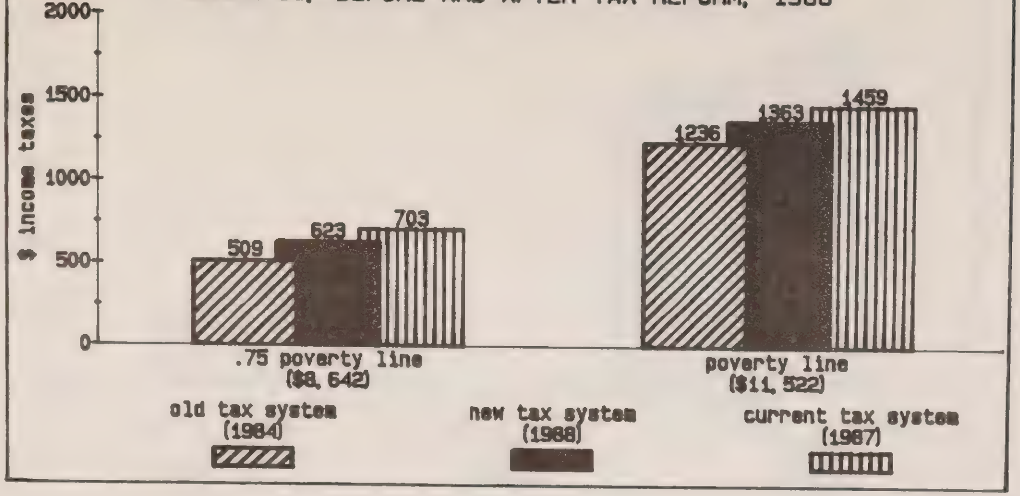


Figure 17

TOTAL INCOME TAXES, MIDDLE-INCOME SINGLE PERSONS UNDER 65, BEFORE AND AFTER TAX REFORM, 1988

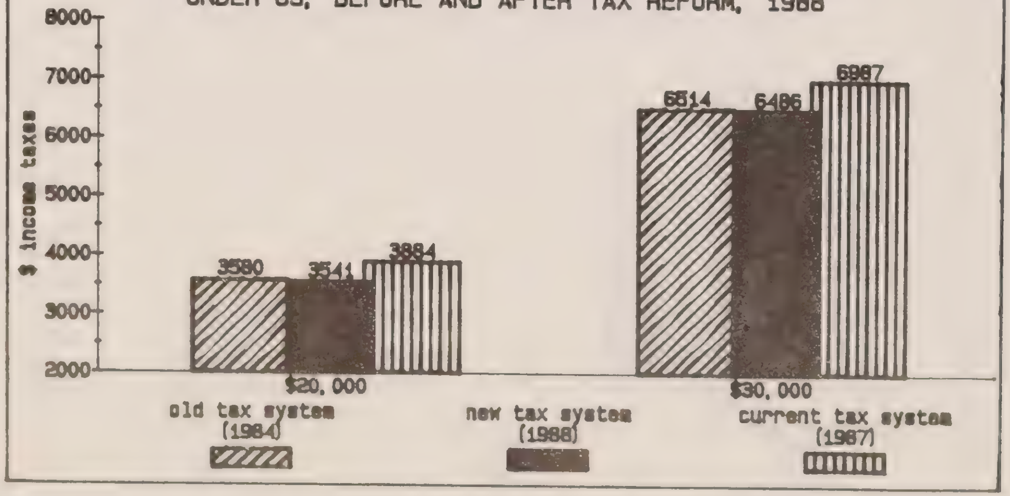


Figure 18

TOTAL INCOME TAXES, SINGLE PERSONS 65 AND OLDER, BY INCOME, BEFORE AND AFTER TAX REFORM, 1988

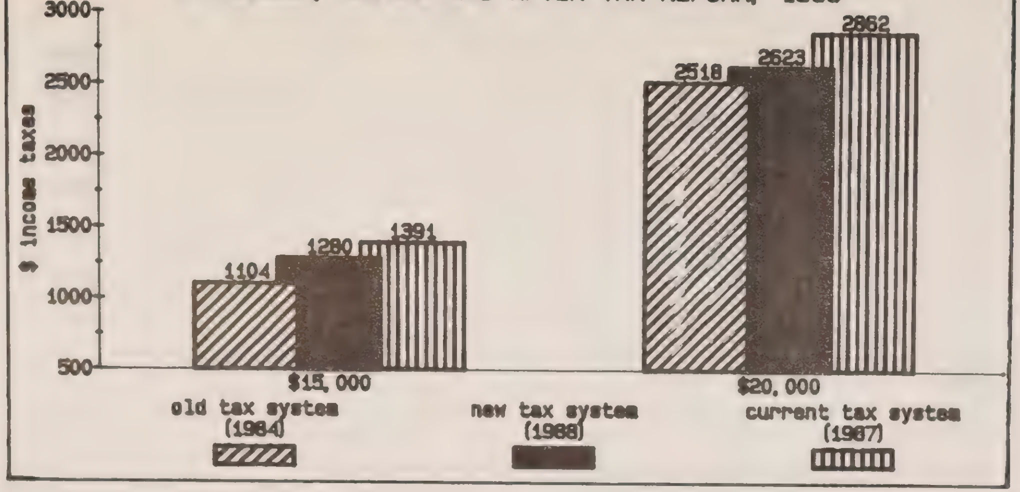


Figure 19

TOTAL INCOME TAXES, SINGLE PERSONS 65 AND OLDER, BY INCOME, BEFORE AND AFTER TAX REFORM, 1988

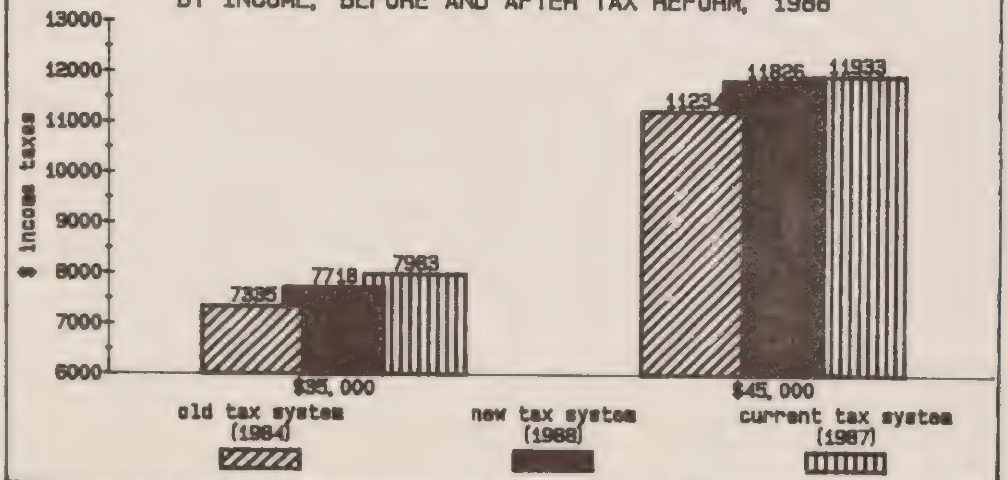


Figure 20

TOTAL INCOME TAXES, ELDERLY COUPLES, BY INCOME, BEFORE AND AFTER TAX REFORM, 1988

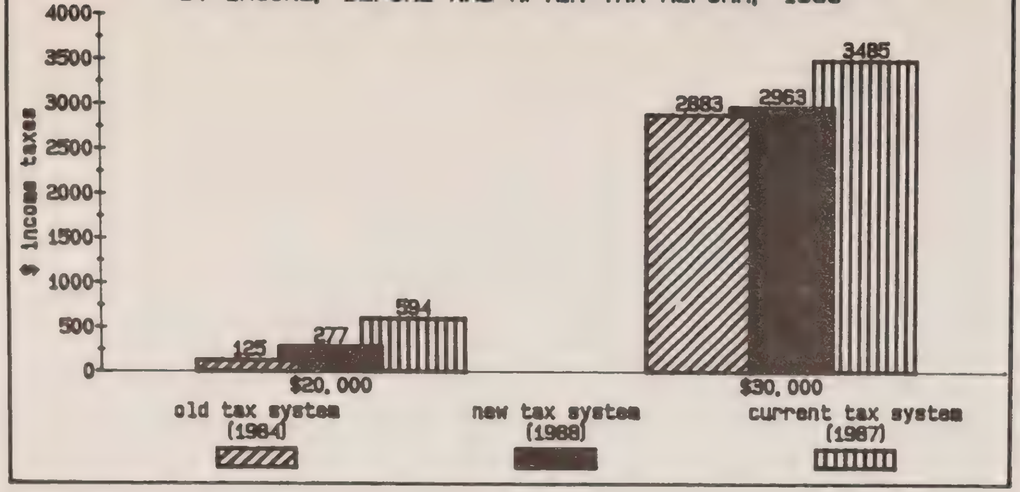


Figure 21

TOTAL INCOME TAXES, ELDERLY COUPLES, BY INCOME, BEFORE AND AFTER TAX REFORM, 1988

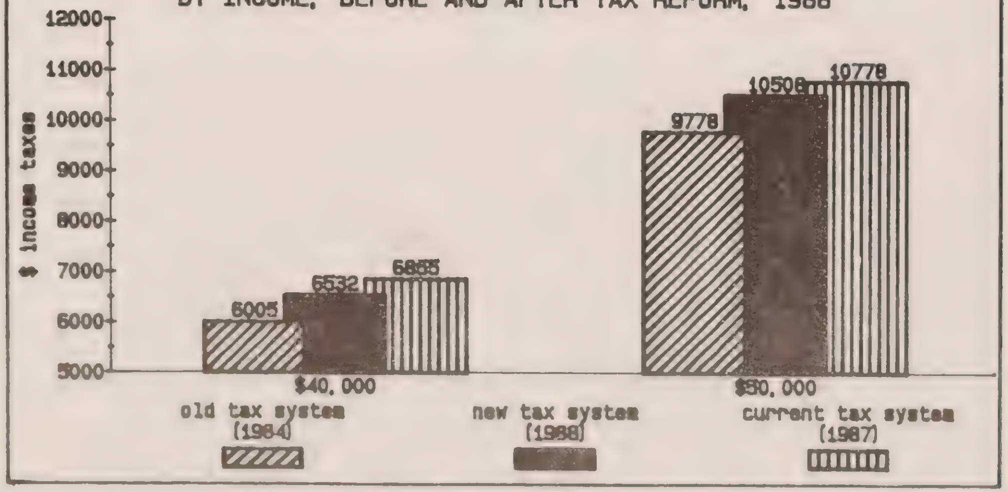


Figure 22

TOTAL INCOME TAXES, CHILDLESS TWO-EARNER COUPLES, BY EARNINGS, BEFORE AND AFTER TAX REFORM, 1988

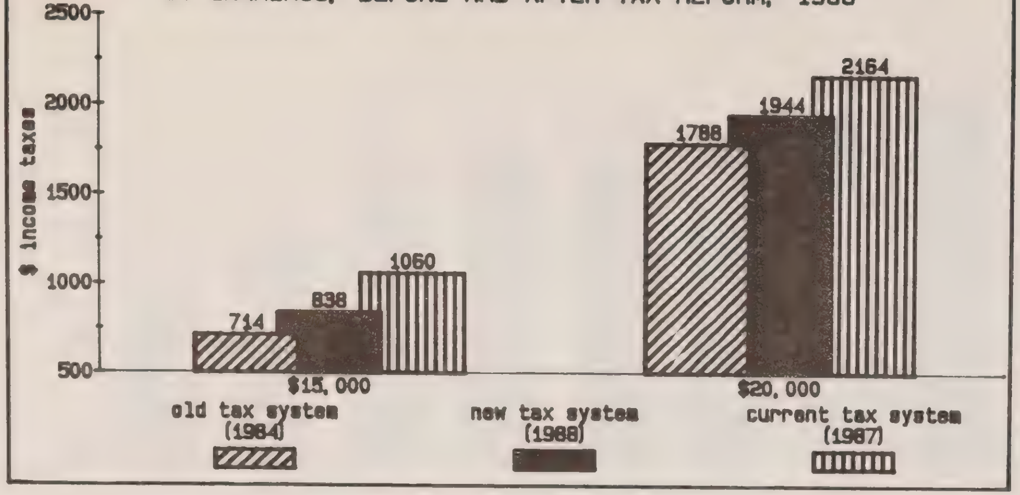


Figure 23

TOTAL INCOME TAXES, CHILDLESS TWO-EARNER COUPLES, BY EARNINGS, BEFORE AND AFTER TAX REFORM, 1988

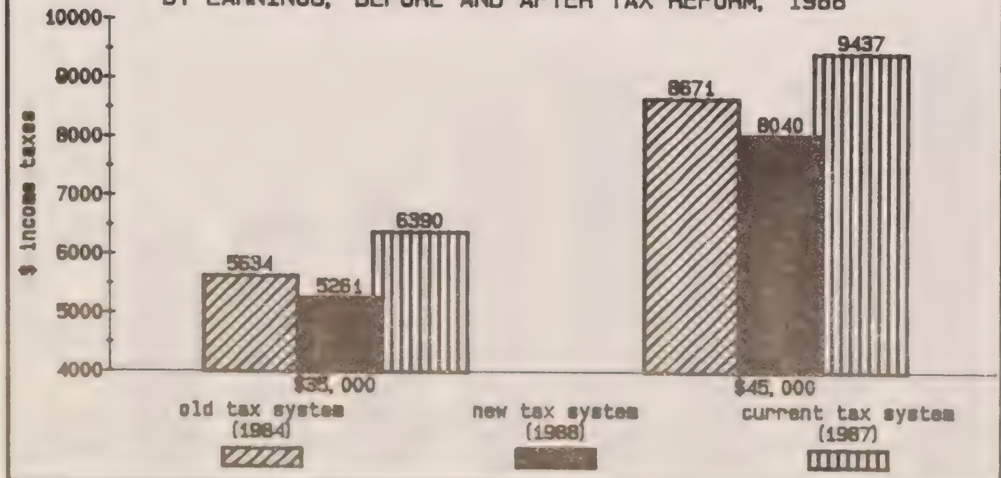


Figure 24

TOTAL INCOME TAXES, TWO-EARNER COUPLE WITH TWO CHILDREN, EARNINGS EQUAL POVERTY LINE, 1984-1991

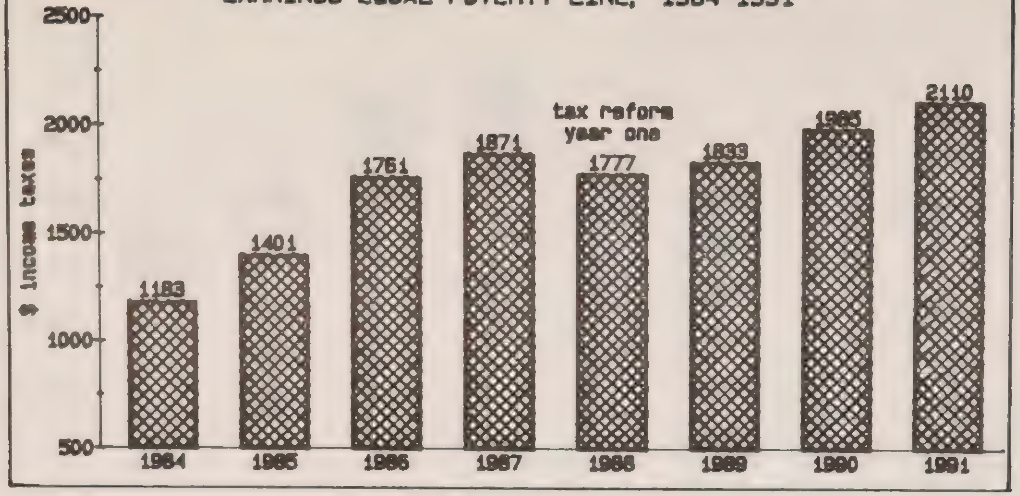


Figure 25

TOTAL INCOME TAXES, TWO-EARNER COUPLE WITH TWO CHILDREN, MIDDLE INCOME ($45,000), 1984-1991

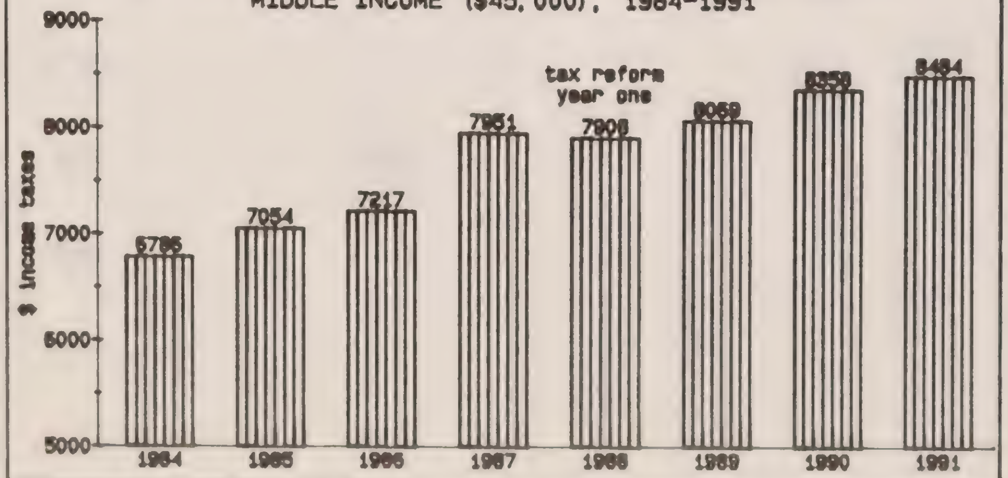


Figure 26

TOTAL INCOME TAXES, ONE-EARNER COUPLE WITH TWO CHILDREN, EARNINGS EQUAL POVERTY LINE, 1984-1991

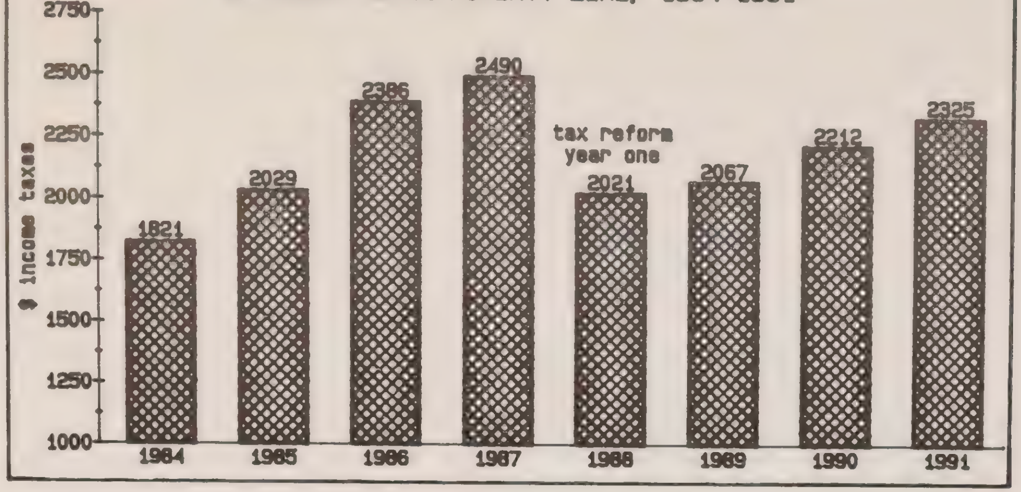


Figure 27

TOTAL INCOME TAXES, ONE-EARNER COUPLE WITH TWO CHILDREN, MIDDLE INCOME ($45,000), 1984-1991

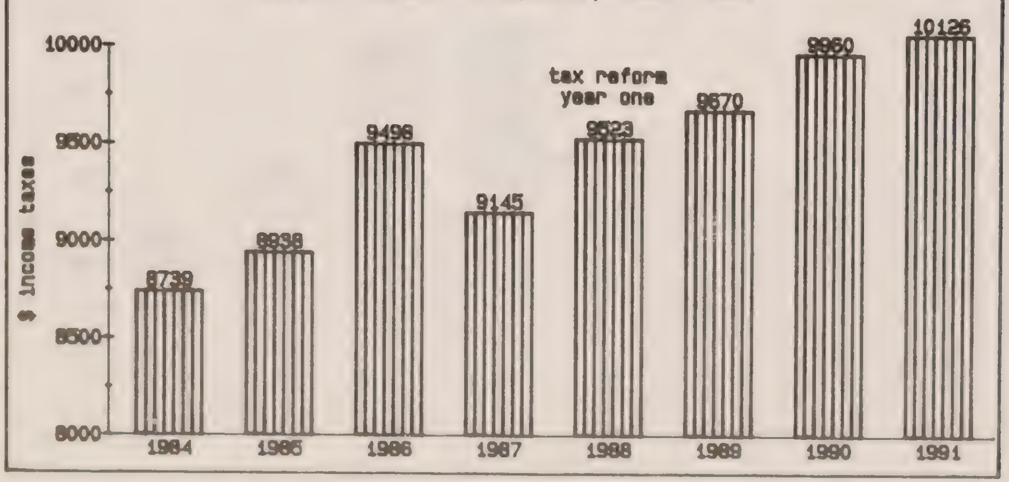


Figure 28

TOTAL INCOME TAXES, SINGLE PARENT WITH TWO CHILDREN, EARNINGS EQUAL POVERTY LINE, 1984-1991

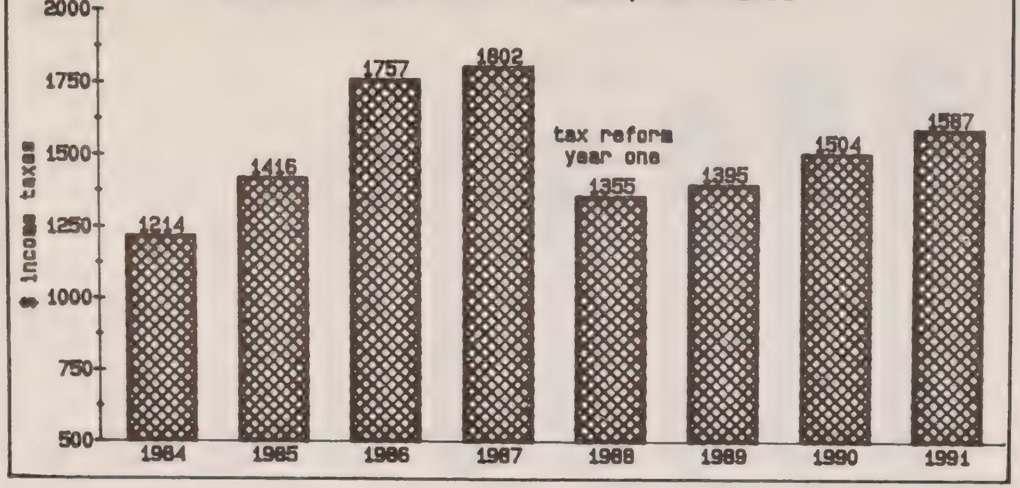


Figure 29

TOTAL INCOME TAXES, SINGLE PARENT WITH TWO CHILDREN, MIDDLE INCOME ($22,000), 1984-1991

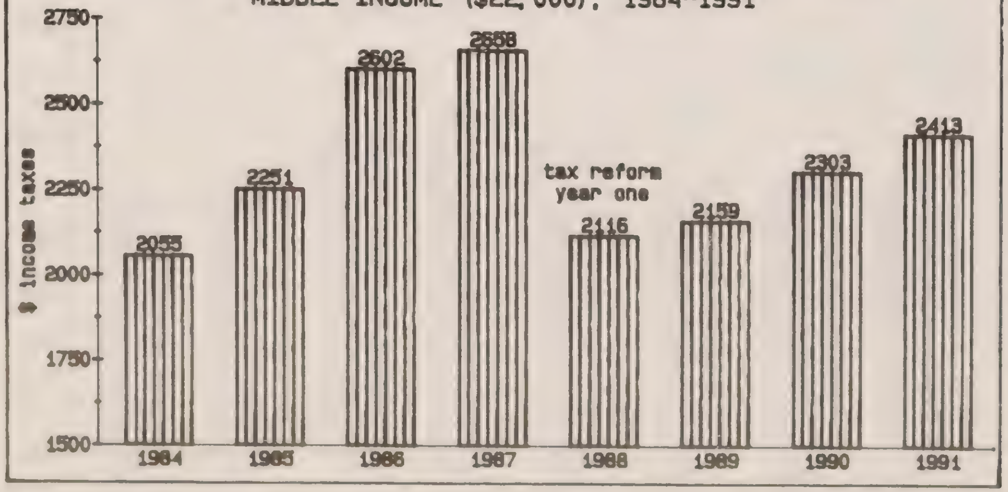


Figure 30

TOTAL INCOME TAXES, SINGLE PERSON UNDER AGE 65, EARNINGS EQUAL POVERTY LINE, 1984-1991

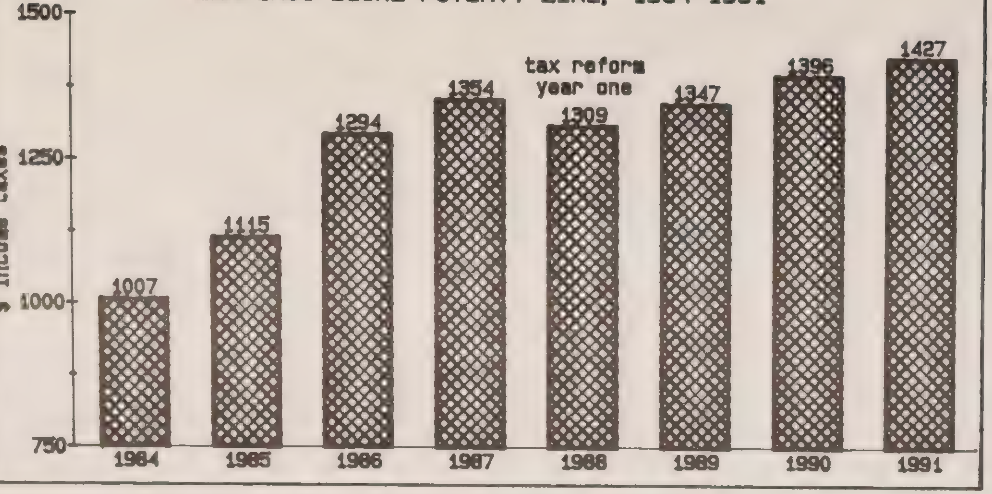


Figure 31

TOTAL INCOME TAXES, SINGLE PERSON UNDER AGE 65, MIDDLE INCOME ($22,000), 1984-1991

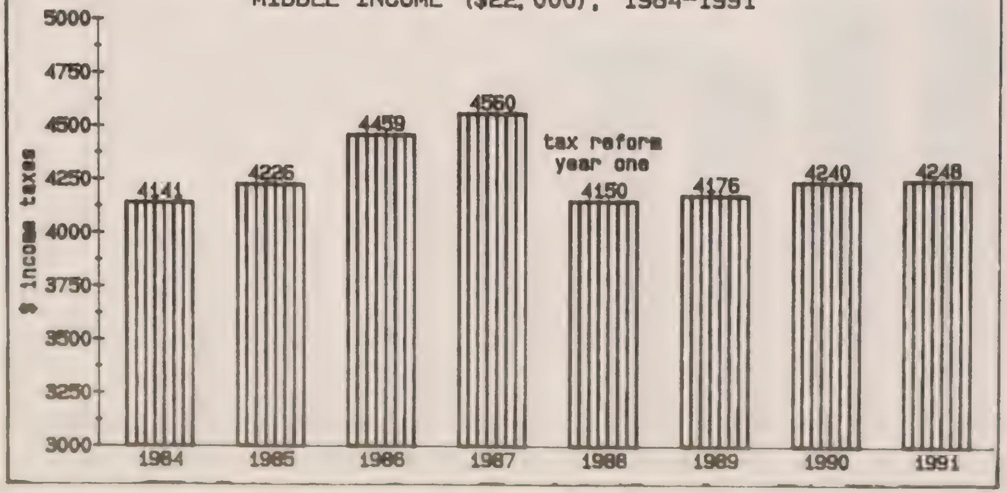


Figure 32
TOTAL INCOME TAXES, SINGLE PERSON OVER 65,
1984 INCOME OF $15,000, 1984-1991

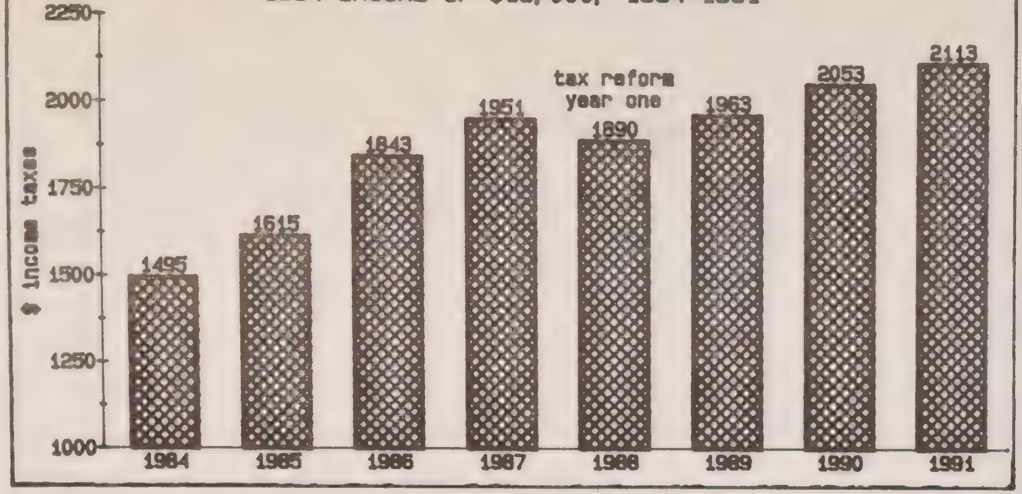


Figure 33
TOTAL INCOME TAXES, SINGLE PERSON OVER AGE 65,
1984 INCOME OF $30,000, 1984-1991

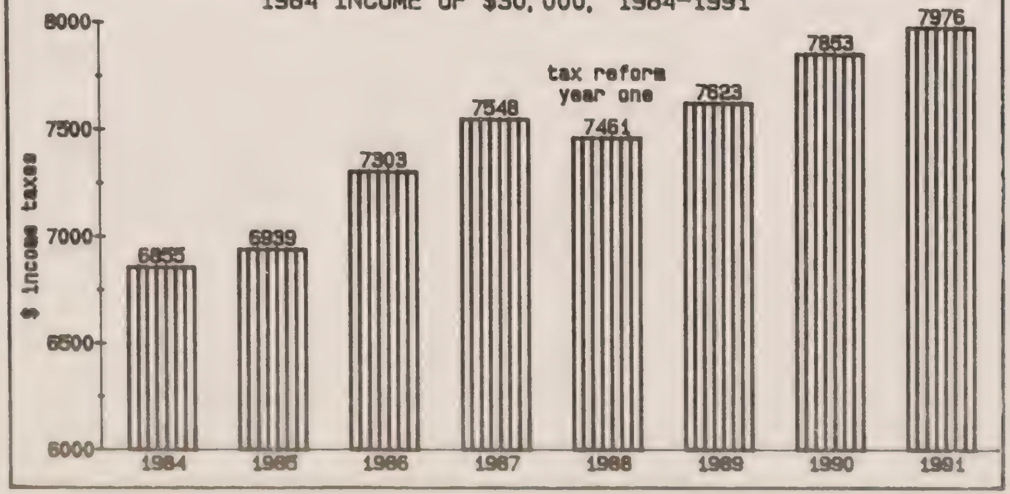


Figure 34
TOTAL INCOME TAXES, ELDERLY COUPLE,
1984 INCOME OF $25,000, 1984-1991

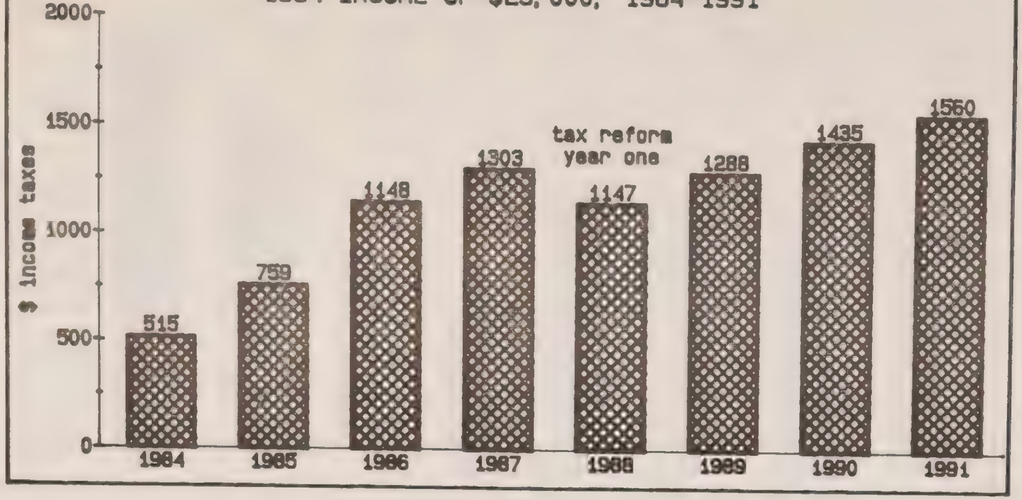


Figure 35
TOTAL INCOME TAXES, ELDERLY COUPLE,
1984 INCOME OF $30,000, 1984-1991

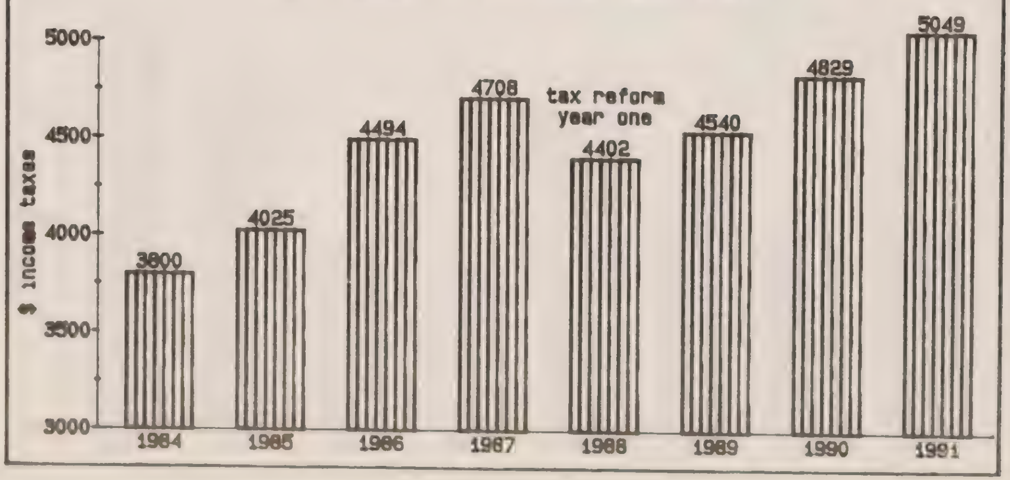


Figure 36

FEDERAL TAXPAYING THRESHOLD,
SINGLE PERSON UNDER AGE 65, 1984-1991

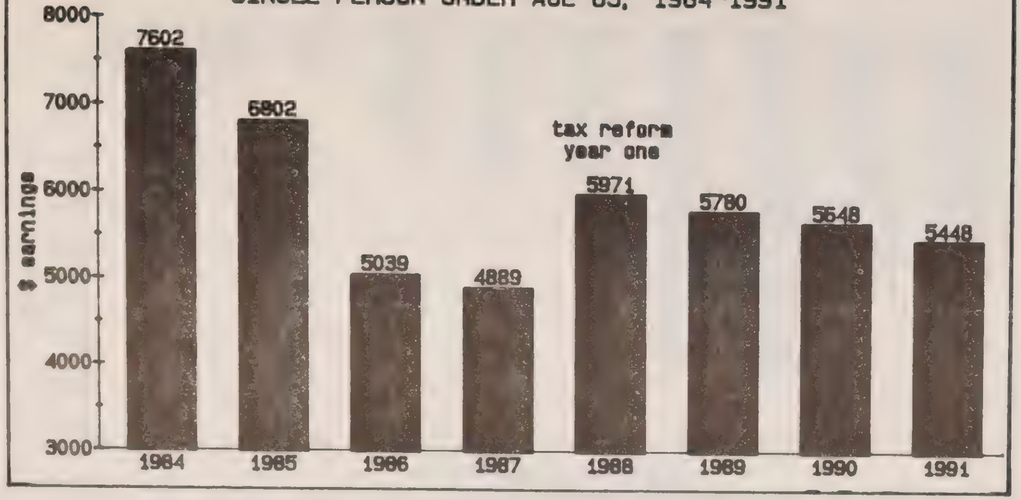


Figure 37

FEDERAL TAXPAYING THRESHOLD AS PERCENTAGE OF POVERTY LINE,
SINGLE PERSON UNDER AGE 65, 1984-1991

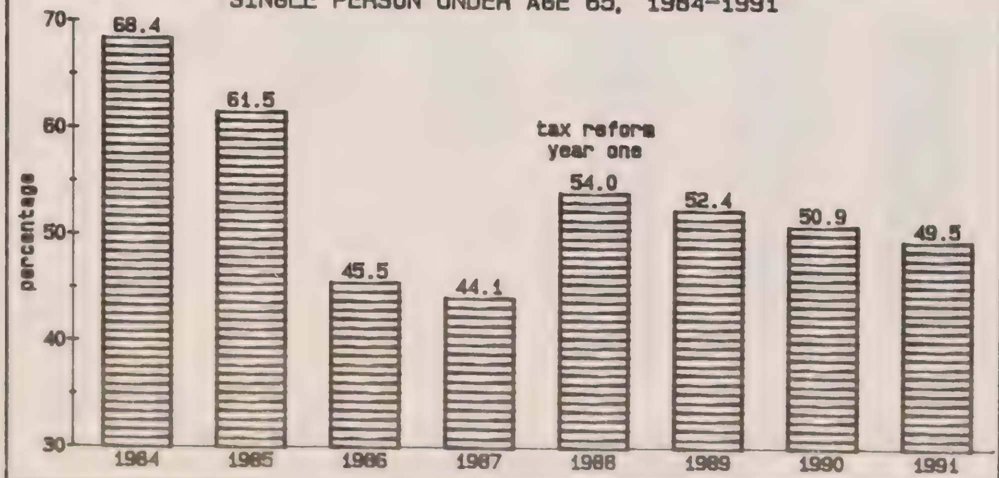


Figure 38
IMPACT OF TAX REFORM ON CHILD BENEFITS, TWO-EARNER COUPLES WITH TWO CHILDREN, BY EARNINGS, 1988

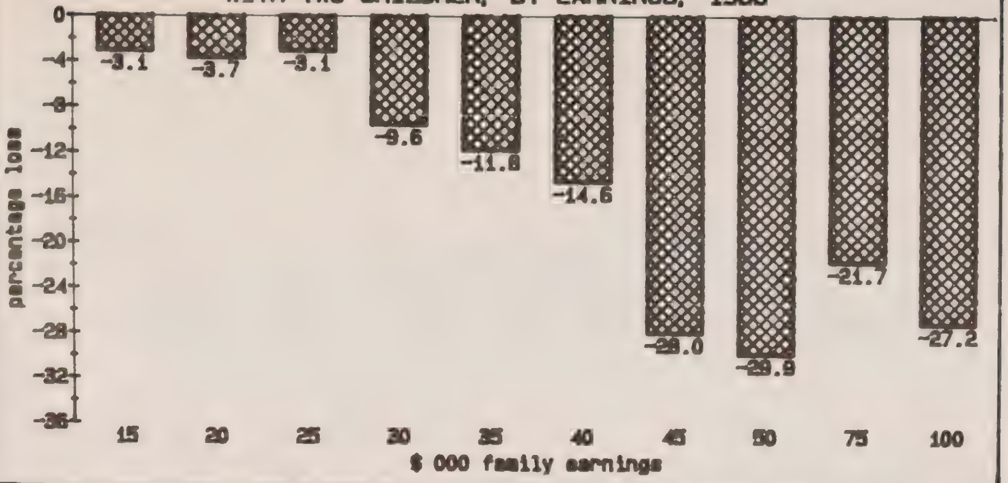


Figure 39
PERCENTAGE DECLINE IN CHILD BENEFITS, TWO-EARNER COUPLES WITH TWO CHILDREN, BY EARNINGS, 1984/1991

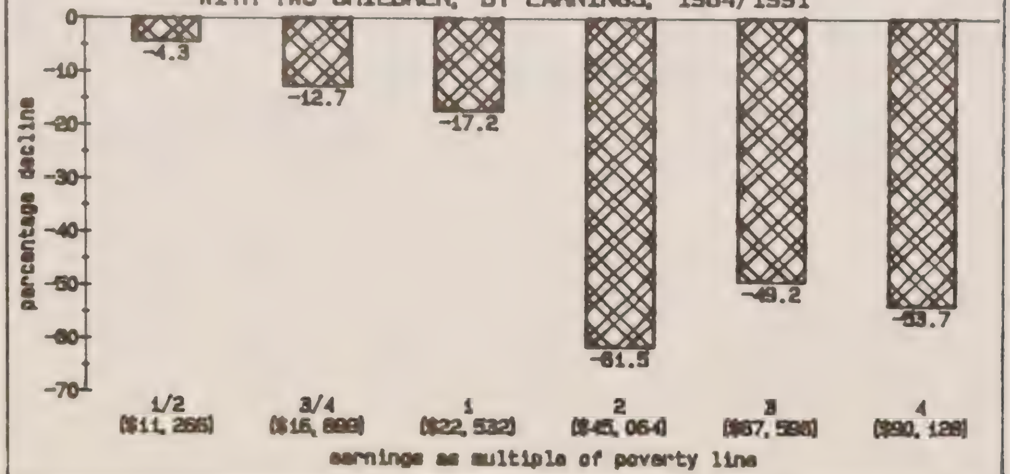


Figure 40

TOTAL CHILD BENEFITS, CONSTANT (1987) DOLLARS,
TWO-EARNER COUPLES WITH TWO CHILDREN, 1984 AND 1991

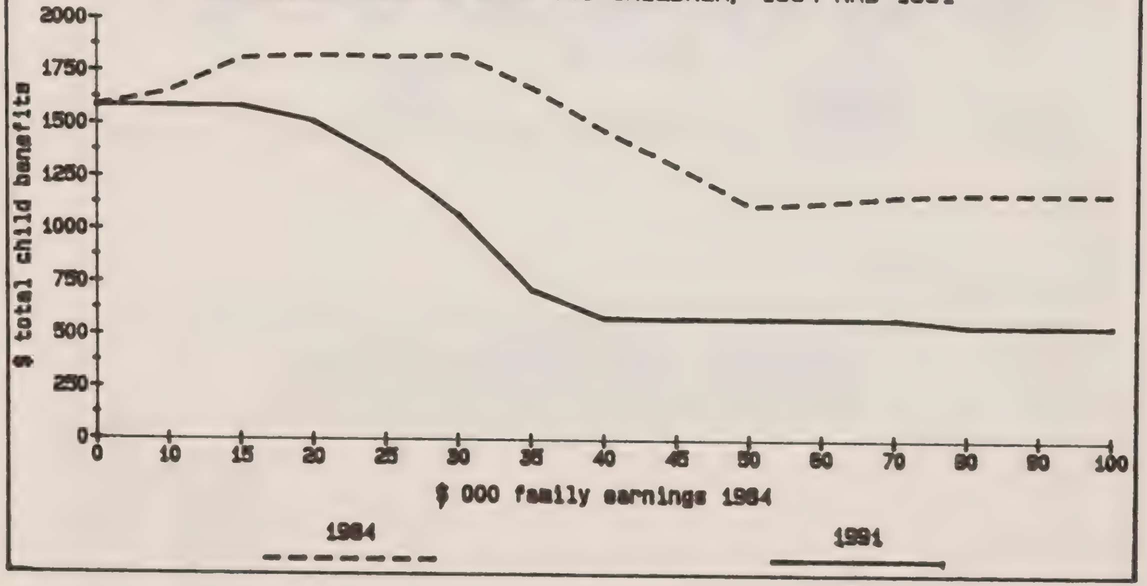


Figure 43

TOTAL TAX BURDEN (INCOME TAXES AND FEDERAL SALES AND EXCISE TAXES), SINGLE CANADIANS UNDER AGE 65, 1984 AND 1988

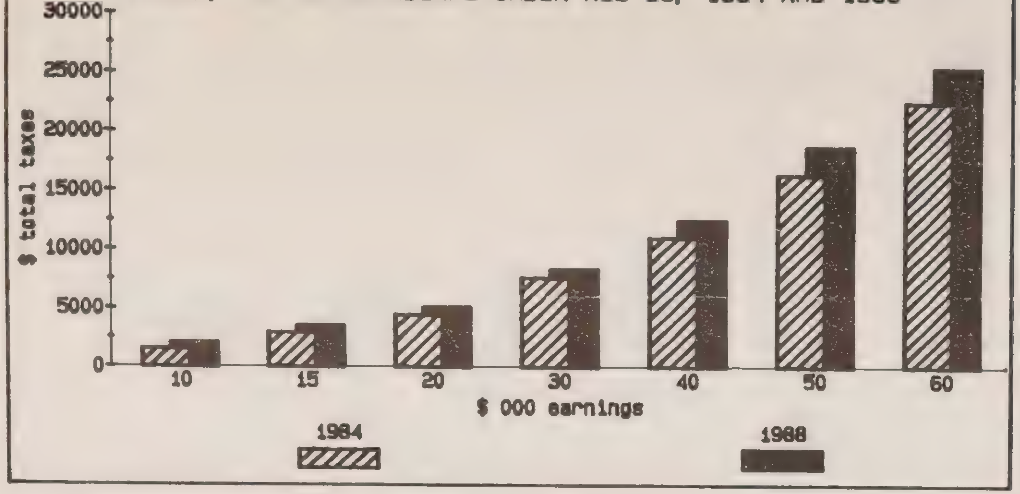


Figure 44

PERCENTAGE INCREASE IN TOTAL TAX BURDEN, SINGLE CANADIANS UNDER AGE 65, 1984-1988

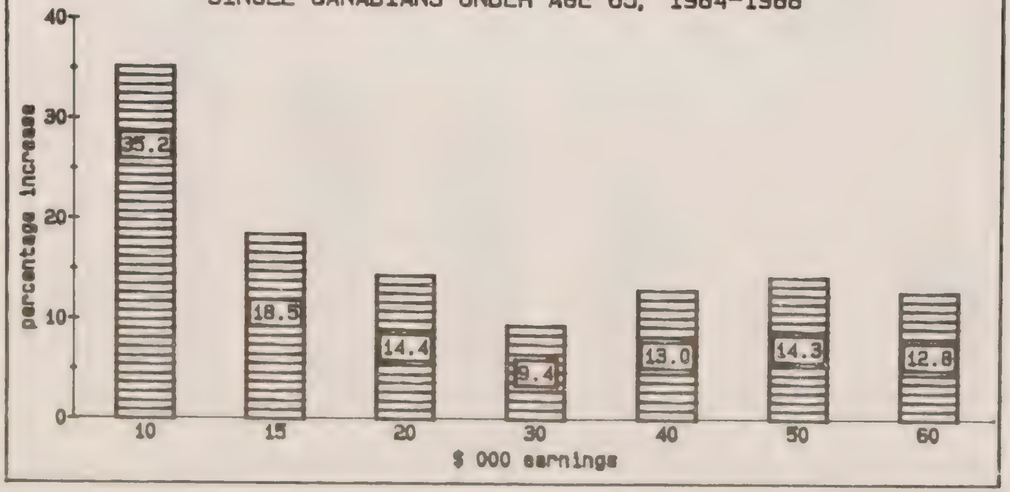


Figure 41

TOTAL TAX BURDEN (INCOME TAXES AND FEDERAL SALES AND EXCISE TAXES), TWO-EARNER COUPLES WITH TWO CHILDREN, 1984 AND 1988

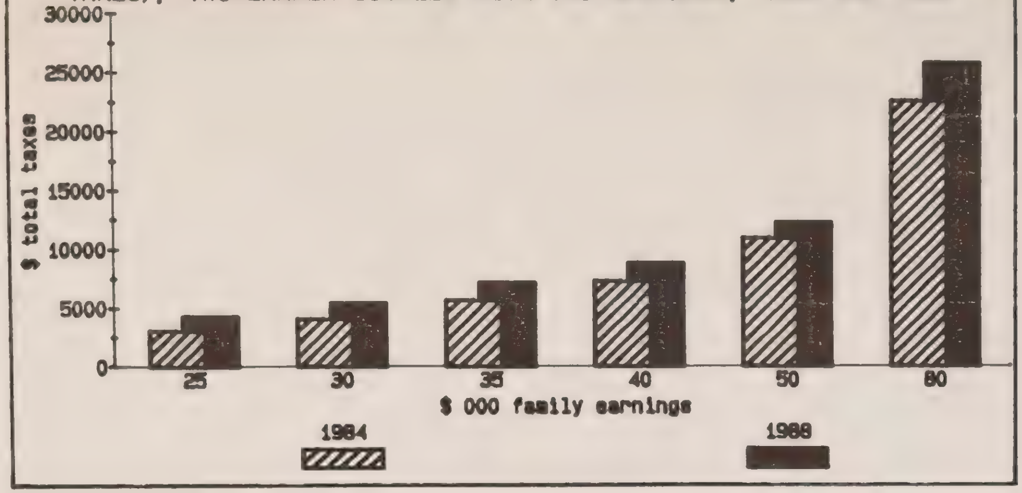


Figure 42

PERCENTAGE INCREASE IN TOTAL TAX BURDEN, TWO-EARNER COUPLES WITH TWO CHILDREN, 1984-1988